Financial statements of Bank Gospodarstwa Krajowego prepared in accordance with IFRS for the financial year from 1 January to 31 December 2019

The above financial statements of Bank Gospodarstwa Krajowego is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

Warsaw, 18 May 2020

SELECTED FINANCIAL DATA ON FINANCIAL STATEMENTS

The selected financial data specified below constitutes additional information to the financial statements of BGK for 2019.

	in PLN thousand		in EUR thousand	
	For the period from 1 Jan 2019 to 31 Dec 2019	For the period from 1 Jan 2018 to 31 Dec 2018	For the period from 1 Jan 2019 to 31 Dec 2019	For the period from 1 Jan 2018 to 31 Dec 2018
Net interest income	945,730	882,835	219,847	206,903
Net fee and commission income	219,116	190,379	50,936	44,618
Operating result	578,598	519,462	134,503	121,742
Profit before tax	578,598	519,462	134,503	121,742
Net profit	511,185	445,347	118,832	104,372
Net comprehensive income	412,984	386,624	96,004	90,610
Cash flows from operating activities	4,183,733	25,262,104	972,563	5,920,482
Cash flows from investing activities	18,518	-3,467,675	4,305	-812,692
Cash flows from financing activities	1,192,132	-1,213,038	277,127	-284,290
Net cash flows	5,394,383	20,581,391	1,253,995	4,823,500

	in PLN thousand		in EUR thousand	
	As at 31 Dec 2019	As at 31 Dec 2018	As at 31 Dec 2019	As at 31 Dec 2018
Balance sheet total	100,604,250	84,746,443	23,624,340	19,708,475
Total equity	18,675,206	19,127,340	4,385,395	4,448,219
Capital adequacy ratio (total capital ratio) excluding flow funds	28.71%	32.09%	28.71%	32.09%
Capital adequacy ratio (total capital ratio) including flow funds	27.54%	31.50%	27.54%	31.50%
Basic funds (Tier 1)	17,869,910	18,275,914	4,196,292	4,250,213
Supplementary funds (Tier 2)	0	0	0	0

Selected financial data on the financial statements was translated to EUR in line with the following rates:

	31 Dec 2019	31 Dec 2018
▪ items from the statement of profit or loss, statement of comprehensive income, and statement of cash flows at the mid-market rate quoted by the National Bank of Poland (NBP) calculated as an arithmetic mean of the exchange rates applicable on the last day of each month in a given period	4.3018	4.2669
▪ items from the statement of financial position at the mid-market rate quoted by the NBP for the last day of the period	4.2585	4.3000

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(in PLN thousand)

STATEMENT OF PROFIT OR LOSS

Continuing operations	Note	2019	2018
Interest income	4	2,208,237	1,902,624
Interest income calculated with the use of the effective interest rate method		2,030,899	1,750,495
Income of similar nature to interest income on instruments at fair value through profit or loss		177,338	152,129
Interest expense	4	-1,262,507	-1,019,789
Net interest income		**945,730**	**882,835**
Fee and commission income	5	231,998	200,821
Fee and commission expense	5	-12,882	-10,442
Net fee and commission income		**219,116**	**190,379**
Net gains (losses) on financial instruments at fair value through profit or loss and foreign exchange gains (losses)	6	120,085	52,083
Net gains (losses) on investments in financial assets	7	111,948	48,401
Net gains (losses) on modifications	8	-9,171	-3,429
Other operating income	9	97,297	8,010
Other operating expenses	9	-26,716	-91,560
General administrative expenses	10	-475,886	-402,088
Net impairment losses and provisions	11	-403,805	-165,169
Operating result		**578,598**	**519,462**
Profit before tax		**578,598**	**519,462**
Income tax	12	-67,413	-74,115
Net profit		**511,185**	**445,347**

STATEMENT OF COMPREHENSIVE INCOME

	Note	2019	2018
Net profit		**511,185**	**445,347**
Other comprehensive income		**-98,201**	**-58,723**
Items that are or will be reclassified subsequently to profit or loss		**8,431**	**33,328**
Revaluation of financial assets at fair value through other comprehensive income, including:		8,431	33,328
Deferred tax on financial assets at fair value through other comprehensive income	12	-1,994	-7,780
Items that will not be reclassified subsequently to profit or loss		**-106,632**	**-92,051**
Revaluation of equity instruments designated as at fair value through other comprehensive income, including:		-104,132	-91,364
Deferred tax on revaluation of equity instruments designated as at fair value through other comprehensive income	12	24,384	21,507
Property, plant and equipment and investment property, including:		-54	0
Deferred tax on property, plant and equipment and investment property	12	13	0
Gains and losses due to measurement of defined benefit plans, including:		-2,446	-687
Deferred tax on measurement of defined benefit plans	12	574	161
Total net comprehensive income		**412,984**	**386,624**

Notes to the financial statements on the pages to follow form their integral part.

(in PLN thousand)

STATEMENT OF FINANCIAL POSITION

	Note	31 Dec 2019	31 Dec 2018
Assets			
Cash and balances with the Central Bank	15	22,729,376	16,668,895
Amounts due from banks	16	6,846,065	7,904,427
Financial assets held for trading	17	576,573	979,480
Financial assets at fair value through profit or loss	18	821,198	740,141
Financial assets at fair value through other comprehensive income	19	20,072,326	15,834,203
Loans and advances to customers	20	30,886,994	25,929,711
- measured at amortised cost		30,762,124	25,783,623
- obligatorily measured at fair value through profit or loss		124,870	146,088
Debt instruments at amortised cost	21	7,397,934	6,881,770
Reverse repurchase agreements	22	5,301,537	3,874,660
Investments in subsidiaries	23	1,820,441	1,811,866
Investments in associates	24	3,577,063	3,744,884
Intangible assets	25	54,962	49,048
Property, plant and equipment	26	132,356	138,862
Right-of-use assets	27	45,843	x
Investment property	28	13,541	13,104
Deferred tax assets	12	236,554	130,118
Other assets	29	91,487	45,274
Total assets		**100,604,250**	**84,746,443**
Liabilities and equity			
Liabilities			
Amounts due to banks	30	4,119,646	3,879,221
Financial liabilities held for trading	17	611,330	1,576,995
Liabilities to customers	31	59,821,262	47,769,258
Liabilities due to repurchase agreements	22	9,113,388	5,214,051
Debt securities issued	32	7,251,523	5,786,636
Lease liabilities		43,099	x
Other liabilities	33	446,848	964,234
Current tax liabilities		80,158	30,507
Provisions	34	441,790	398,201
Total liabilities		**81,929,044**	**65,619,103**
Equity			
Statutory capital	35	16,646,945	17,102,410
Supplementary capital		1,125,577	1,032,822
Revaluation reserve		159,102	257,303
Other capital reserves		232,330	232,330
Retained earnings/accumulated loss		67	57,128
Net profit (loss) for the current year		511,185	445,347
Total equity		**18,675,206**	**19,127,340**
Total liabilities and equity		**100,604,250**	**84,746,443**
Capital adequacy ratio (total capital ratio) excluding flow funds	50	28.71%	32.09%
Capital adequacy ratio (total capital ratio) including flow funds		27.54%	31.50%

Notes to the financial statements on the pages to follow form their integral part.

(in PLN thousand)

STATEMENT OF CHANGES IN EQUITY

Changes from 1 January to 31 December 2019	Note	Statutory capital	Supplementary capital	Revaluation reserve			Other capital reserves		Retained earnings	Total equity
				Financial assets at fair value through other comprehensive income	Actuarial gains and losses	Investment property revaluation reserve	Reserve capital	General banking risk reserve		
1 January 2019		**17,102,410**	**1,032,822**	**258,496**	**-2,773**	**1,580**	**76,830**	**155,500**	**502,475**	**19,127,340**
Total comprehensive income, including:		**0**	**0**	**-95,701**	**-2,446**	**-54**	**0**	**0**	**511,185**	**412,984**
net profit for the current year		0	0	0	0	0	0	0	511,185	**511,185**
deferred tax		0	0	22,390	574	13	0	0	0	**22,977**
gains and losses due to measurement of defined benefit plans		0	0	0	-3,020	0	0	0	0	**-3,020**
revaluation of debt financial instruments at fair value through other comprehensive income (gross)		0	0	10,425	0	0	0	0	0	**10,425**
revaluation or disposal of equity instruments at fair value through other comprehensive income (gross)		0	0	-128,516	0	0	0	0	0	**-128,516**
settlement of investment property revaluation surplus		0	0	0	0	-67	0	0	0	**-67**
Allocation of investment property revaluation surplus to retained earnings		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**67**	**67**
Retained earning distribution, including:		**44,535**	**92,755**	**0**	**0**	**0**	**0**	**0**	**-137,730**	**-440**
allocation to capital		44,535	92,755	0	0	0	0	0	-137,290	**0**
appropriation of profit to the Inland Waterways Fund (IWF)		0	0	0	0	0	0	0	-433	**-433**
income tax		0	0	0	0	0	0	0	-7	**-7**
Reduction of the statutory capital – establishment of the Polish Science Fund	35	**-500,000**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-500,000**
Distribution of profit to the State Budget	14	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-364,745**	**-364,745**
31 December 2019		**16,646,945**	**1,125,577**	**162,795**	**-5,219**	**1,526**	**76,830**	**155,500**	**511,252**	**18,675,206**

Notes to the financial statements on the pages to follow form their integral part.

(in PLN thousand)

Changes from 1 January to 31 December 2018	Note	Statutory capital	Supplementary capital	Revaluation reserve			Other capital reserves			Retained earnings	Total equity
				Available-for-sale financial assets	Financial assets at fair value through other comprehensive income	Actuarial gains and losses	Investment property revaluation reserve	Reserve capital	General banking risk reserve		
1 January 2018		**17,950,629**	**671,393**	**356,064**	**0**	**-2,085**	**1,580**	**76,830**	**155,500**	**837,781**	**20,047,692**
Effect of application of IFRS 9		0	0	-356,064	316,531	0	0	0	0	57,128	**17,595**
Adjusted opening balance in accordance with IFRS 9		**17,950,629**	**671,393**	**0**	**316,531**	**-2,085**	**1,580**	**76,830**	**155,500**	**894,909**	**20,065,287**
Total comprehensive income, including:		**0**	**0**	**0**	**-58,036**	**-687**	**0**	**0**	**0**	**445,347**	**386,624**
net profit for the current year		0	0	0	0	0	0	0	0	445,347	**445,347**
deferred tax		0	0	0	13,727	161	0	0	0	0	**13,888**
gains and losses due to measurement of defined benefit plans		0	0	0	0	-848	0	0	0	0	**-848**
revaluation of debt financial instruments at fair value through other comprehensive income (gross)		0	0	0	41,108	0	0	0	0	0	**41,108**
revaluation or disposal of equity instruments at fair value through other comprehensive income (gross)		0	0	0	-112,871	0	0	0	0	0	**-112,871**
Retained earning distribution, including:		**51,781**	**361,429**	**0**	**0**	**0**	**0**	**0**	**0**	**-413,528**	**-318**
allocation to capital		51,781	361,429	0	0	0	0	0	0	-413,210	**0**
appropriation of profit to the Inland Waterways Fund (IWF)		0	0	0	0	0	0	0	0	-312	**-312**
income tax		0	0	0	0	0	0	0	0	-6	**-6**
Reduction of the statutory capital – establishment of the National Guarantee Fund	35	**-900,000**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-900,000**
Distribution of profit to the State Budget	14	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-424,253**	**-424,253**
31 December 2018		**17,102,410**	**1,032,822**	**0**	**258,495**	**-2,772**	**1,580**	**76,830**	**155,500**	**502,475**	**19,127,340**

Notes to the financial statements on the pages to follow form their integral part.

(in PLN thousand)

STATEMENT OF CASH FLOWS

Statement of cash flows	Note	2019	2018
A. Cash flows from operating activities			
Net profit/loss		**511,185**	**445,347**
Total adjustments:		**3,672,548**	**24,816,757**
Income tax recognised in profit or loss		67,413	74,115
Depreciation and amortisation	10	35,267	20,762
Profit/loss on investing activities		149,038	51,543
Interest and dividends	37	163,490	162,932
Foreign exchange gain/loss		-2,843	12,940
Change in amounts due from banks		392,264	85,859
Change in financial assets held for trading		402,907	362,590
Change in loans and advances to customers		-4,957,283	1,311,479
Change in financial assets at fair value through profit or loss		-81,057	-621,224
Change in financial assets at fair value through other comprehensive income		-4,356,212	-15,952,927
Change in debt instruments at amortised cost		-516,164	-6,867,238
Change in reverse repurchase agreements		-1,426,877	-1,769,120
Change in available-for-sale financial assets	37	0	37,028,623
Change in other assets and assets held for sale		-46,213	-5,756
Change in amounts due to banks		-60,257	374,499
Change in financial liabilities held for trading		-965,665	292,377
Change in liabilities to customers		12,052,004	13,961,242
Change in liabilities due to repurchase agreements		3,899,337	-2,359,769
Change in provisions		40,569	116,386
Change in other liabilities		-1,017,819	-1,309,854
Income tax paid		-101,229	-153,558
Other adjustments	37	1,878	856
Net cash from operating activities		**4,183,733**	**25,262,104**
B. Cash flows from investing activities			
Inflows		**313,387**	**80,514**
Sale of property, plant and equipment		2,207	14
Sale of shares in subsidiaries and associates	23.24	274,222	14,400
Sale of investments in financial assets		0	48,700
Dividends received	37	36,958	17,400
Outflows		**294,869**	**3,548,189**
Purchase of property, plant and equipment	26	10,303	10,910
Purchase of intangible assets	25	18,111	27,651
Purchase of shares in subsidiaries and associates	23.24	266,455	3,509,628
Net cash from investing activities		**18,518**	**-3,467,675**
C. Cash flows from financing activities			
Inflows		**4,565,655**	**735,000**
Long-term loans and advances received		715,655	235,000
Debt securities issued		3,850,000	500,000
Outflows		**3,373,523**	**1,948,038**
Repayment of long-term loans and advances		411,449	337,449
Repayment of interest		57,644	52,235
Redemption of debt securities issued		2,392,000	1,000,000
Interest paid on debt securities issued		134,910	134,101
Repayment of lease liabilities		12,775	x
Other financial expenditure - distribution of profit to the State Budget	14	364,745	424,253
Net cash from financing activities		**1,192,132**	**-1,213,038**
D. Total net cash flows		**5,394,383**	**20,581,391**
E. Cash and cash equivalents at the beginning of the period		**23,644,104**	**3,062,713**
F. Cash and cash equivalents at the end of the period	37	**29,038,487**	**23,644,104**

Notes to the financial statements on the pages to follow form their integral part.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Bank Gospodarstwa Krajowego (the "Bank", "BGK") is a state-owned bank as defined by the Banking Law of 29 August 1997 (Journal of Laws of 2019, item 2357) as well as the Act on Bank Gospodarstwa Krajowego of 14 March 2003 (Journal of Laws of 2019, item 2144, as amended), along with the Articles of Association adopted by the Regulation of the Minister of Development on the adoption of the Articles of Association of Bank Gospodarstwa Krajowego of 16 September 2016 (Journal of Laws of 2016, item 1527). The Bank operates within the territory of the Republic of Poland. Its Head Office is located at Al. Jerozolimskie 7, 00-955 Warsaw. The Bank's REGON statistical number is 000017319 and NIP tax identification number is 525-00-12-372. Apart from the Head Office, BGK operates 16 Regions located in all province capitals and representative offices based in Brussels, Frankfurt and London. The Bank is the parent of the Bank Gospodarstwa Krajowego Group and a significant investor for associates held by the Bank and its subsidiaries.

While fulfilling the functions specified in the Banking Law of 29 August 1997, the Bank carries out its own activities, which are complementary to its core, commissioned activities.

Under Article 4 of the Act on Bank Gospodarstwa Krajowego, one of the primary purposes of BGK's activity is to support the economic policy of the Council of Ministers, social and economic government programmes, including surety and guarantee programmes, as well as local and regional development programmes, specifically:

- projects financed with EU funds and international financial institutions,
- infrastructure projects,
- projects related to the development of micro, small and medium-sized enterprise sector, including those financed with public funds.

Tasks fulfilled by the Bank under Articles 5 and 6 of the Act on Bank Gospodarstwa Krajowego include, in particular:

- administration of funds created by, entrusted with or transferred to BGK under separate legislation,
- export transaction handling with the use of export support instruments, in addition to supporting exports of Polish goods and services under separate legislation or government programmes,
- offering, whether directly or indirectly, guarantee and/or surety services under government surety and guarantee programmes or on behalf of and for the account of the State Treasury in accordance with the Act on Sureties and Guarantees Granted by the State Treasury and Certain Legal Persons, dated 8 May 1997, in particular to the small and medium-sized enterprise sector,
- supporting the development of residential construction, in particular development of residential property for rent, under separate legislation or government programmes,
- providing bank account services to the State budget,
- providing bank account services to the local government budget administration,
- providing bank account services to the accounts of state or local government legal persons established under separate legislation to carry out public functions,
- services to the accounts of state or local government legal persons established under separate legislation to carry out public functions,
- other functions carried out with the use of public funds, as specified in agreements entered into with public administration bodies.

Bank Gospodarstwa Krajowego has consistently pursued its mission to support social and economic growth of Poland and support the public finance sector in the performance of its tasks. The mission has been pursued since the Bank's establishment in 1924.

The adopted strategy provides for the Bank's active role as a partner in supporting growth and cooperation both in the financial market and as part of implementation of social and economic programmes. BGK's strategy addresses the challenges faced by the Polish economy and reflects the Strategy for Responsible Development.

The four basic pillars of the Bank's operations are: financing development and investments, European programmes, public finance, and operational excellence.

The Bank's overriding objective is to support economic growth in areas where a gap occurred and the market does not operate effectively and to support sectors which are key to the implementation of the objectives of the economic policy.

In addition, the Bank operates numerous programmes commissioned by governmental authorities and related to distribution of EU funds.

The key values defining the Bank's organisational culture are: professionalism, partnership cooperation and commitment. Assimilation of these values is facilitated by cultural transformation. The effectiveness of the process is confirmed by, among other things, positive results of employee opinion survey carried out in 2019. The key element of the transformation has always been the pursuit of operational excellence in terms of delivering value to both external customers and the Bank's employees. Projects and internal efforts undertaken are focused on four key areas: business model, IT, HR and communications. Another important area of the Bank's activities is strengthening its position on the international market , as part of which it plans to open further foreign representative offices still this year: in Amsterdam, Washington and Singapore.

In 2020, the Bank's new strategy will be drafted. It will draw on the effects of the Bank's existing development projects and strengthen BGK's role as a key institution for Poland's social and economic development.

1.1. COMPOSITION OF THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD

1) Composition of the Bank's Supervisory Board

As at 31 December 2019, the composition of the Bank's Supervisory Board was as follows:

- Paweł Borys – Chairman of the Supervisory Board,
- Beata Gorajek – Deputy Chairwoman of the Supervisory Board,
- Jarosław Nowacki – Secretary of the Supervisory Board,
- Artur Adamski – Member of the Supervisory Board,
- Daniel Bieszczad – Member of the Supervisory Board,
- Mariusz Gruda – Member of the Supervisory Board,
- Zbigniew Krysiak – Member of the Supervisory Board,
- Jan Filip Staniłko – Member of the Supervisory Board,
- Jerzy Szmit – Member of the Supervisory Board,
- Łukasz Robert Śmigasiewicz – Member of the Supervisory Board,
- Magdalena Tarczewska-Szymańska – Member of the Supervisory Board,
- Adam Rudzewicz – Member of the Supervisory Board.

Composition of the Bank's Supervisory Board did not change from 31 December 2019 until the date on which these financial statements were signed.

2) Composition of the Bank's Management Board

Wojciech Hann tendered his resignation as Member of the Management Board with effect from 29 November 2019.

Composition of the Bank's Management Board as at 31 December 2019 was as follows:

- Beata Daszyńska-Muzyczka – President of the Management Board,
- Paweł Nierada – First Vice-President of the Management Board,
- Włodzimierz Kocon – Vice-President of the Management Board,
- Przemysław Cieszyński – Member of the Management Board,
- Radosław Kwiecień – Member of the Management Board.

Composition of the Bank's Management Board did not change from 31 December 2019 until the date on which these financial statements were signed.

2. Accounting policies

2.1. Statement of compliance

These separate financial statements of Bank Gospodarstwa Krajowego for 2019 (the "financial statements") have been prepared in accordance with the International Financial Reporting Standards approved by the European Union as at 31 December 2019 and the related interpretations published as Commission Regulations (IFRS), and to the extent not regulated by the aforesaid standards in accordance with the requirements of the Accounting Act of 29 September 1994 and secondary legislation thereto.

These separate financial statements were approved for issue by the Management Board of Bank Gospodarstwa Krajowego on 18 May 2020.
These separate financial statements of Bank Gospodarstwa Krajowego are published on the same date as the consolidated financial statements of the Bank Gospodarstwa Krajowego Group for 2019.

2.2. Amendments to accounting standards

Amendments to the existing standards adopted for the first time in the financial statements for 2019

The following new standards, amendments to existing standards and interpretations issued by the International Accounting Standards Board (IASB) and approved for use in the EU were applied for the first time in the Bank's financial statements for 2019:

- IFRS 16 *Leases* – For a detailed description of the amendments see below in this Note.
- Amendments to IFRS 9 *Financial Instruments* – The amendments modify the requirements of IFRS 9 regarding the rights of early contract termination for the purpose of measurement at amortised cost or at fair value through other comprehensive income even in the case of negative compensation. In accordance with the amendments, the feature (positive or negative) of a prepayment is not relevant, i.e. depending on the interest rate applicable at agreement termination a payment can be made resulting in early repayment. The amount of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain. Moreover, the rules of accounting for a modification of a financial liability that does not result in the derecognition of the financial liability were clarified. In such a case the carrying amount of a liability is adjusted and the gain or loss from modification is recognised in comprehensive income without adjusting the effective interest rate.
- Amendments to IAS 19 *Employee Benefits* – According to the amendments, following a change of the plan the measurement assumptions should be updated in order to define current costs of services and net interest for the remaining part of the reporting period.
- Amendments to IAS 28 *Investments in Associates and Joint Ventures* – The amendments were introduced to clarify that an entity applies IFRS 9 (including requirements regarding impairment) with regard to long-term interests in associates or joint ventures that form part of the net investment in the associate or joint venture but to which the equity method is not applied.
- Amendments to various standards as part of the *Annual Improvements to IFRS Standards (2015–2017 Cycle)* – The amendments were introduced to various standards as part of the annual improvements process (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily to remove inconsistencies and clarify wording.
- IFRIC 23 *Uncertainty over Income Tax Treatments* – The interpretation contains guidelines that supplement the IAS 12 requirements while specifying the manner of depicting the effects of uncertainty while recognising income tax.

The above new standards, amendments to existing standards and the interpretation, with the exception of IFRS 16 *Leases*, had no effect on the Bank's financial statements for 2019.

IFRS 16 *Leases*

IFRS 16 *Leases* was published by the IASB in January 2016 and approved for use by the European Union in 2017. IFRS 16 replaced IAS 17 *Leases* and covers recognition, measurement, presentation and disclosure of leases.

The new standard IFRS 16 *Leases* did not introduce any material changes with respect to lessors. Lessors continue to classify lease agreements similarly to IAS 17 by dividing them into operating leases and finance leases. A lease is classified as a finance lease, if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset.
Otherwise, the lease is classified as an operating lease. In the case of finance leases, a lessor recognises finance income over the lease term based on a constant periodic rate of return on the lessor's net investment in the lease. In the case of operating leases, a lessor recognises lease payments from operating leases as income on either a straight-line basis or another systematic basis, if it is more representative of the pattern in which benefit from the use of the underlying asset is recognised.

(in PLN thousand)

Material changes introduced in the new standard IFRS 16 *Leases* affected lessees. In accordance with the new definition of an agreement which is, or contains, a lease (i.e. an agreement that conveys the right to control the use of an identified asset for a period of time in exchange for consideration), on 1 January 2019 in the statement of financial position the Bank recognised lease liabilities arising from agreements which had previously been classified as "operating leases" in line with the provisions of IAS 17 *Leases.* Concurrently, the Bank recognised right-of-use assets in an amount equal to lease liabilities increased by any lease payments made before that date or any initial direct costs incurred by the Bank. New rules applied to agreements on lease of property (including perpetual usufruct of land), cars, IT infrastructure and equipment.

On the date of initial application of IFRS 16, the Bank applied transition provisions and measures lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate. The incremental borrowing rates calculated by the Bank and applied to lease liabilities on 1 January 2019 for the following currencies were as follows:

- for PLN – from 1.57% to 3.79%,
- for EUR – from 0.43% to 0.55%,
- for USD – 3.25%.

The lease term was determined taking into account the options of its extension or shortening, provided for in the executed agreements, where it could be assumed with sufficient certainty that the lessee would exercise such options.

The Bank chose to apply the simplified approach to agreements, for which the remaining lease term was less than 12 months as at 1 January 2019, and for leases of low-value assets, for which the Bank recognises lease payments in profit or loss. In accordance with the approach applied by the Bank, an agreement may be classified as short-term, if its term, including any renewal, does not exceed 12 months. Assets may be classified as low-value assets, if the purchase price of a new asset does not exceed PLN 10 thousand.

The table below presents the effect of application of IFRS 16 as at 1 January 2019.

	31 Dec 2018 before the effect of application of IFRS 16	Effect of application of IFRS 16	1 Jan 2019 after the effect of application of IFRS 16
Assets			
Intangible assets	49,048	-3,443	45,605
Property, plant and equipment	138,862	0	138,862
Right-of-use assets	x	43,813	43,813
Liabilities and equity			
Lease liabilities	x	40,370	40,370

The table below presents the reconciliation of differences between future lease payments for non-cancellable operating leases in accordance with IAS 17 as at 31 December 2018 and the lease liabilities recognised as at 1 January 2019 in accordance with IFRS 16.

Reconciliation of lease liabilities	
Operating lease liability as at 31 December 2018 (undiscounted)	**47,840**
Agreements previously not classified as a lease*	21,780
Discount effect	-26,844
Short-term leases recognised as cost	-872
Leases of low-value assets recognised as cost	-31
Lease liabilities not recognised as at 1 January 2019	-1,503
Lease liability recognised as at 1 January 2019	**40,370**

*Including future payments under the right of perpetual usufruct of land.

The Bank has not decided for early adoption of the standard, hence it applied IFRS 16 for the first time for the reporting period beginning on 1 January 2019. The Bank used a modified retrospective approach to its lease agreements, as a result of which it did not restate comparable data.

For a detailed description of the accounting principles relating to leases applied by the Bank see Note 2.5.11 Leases (Significant accounting policies).

New standards and amendments to existing standards issued by the IASB and approved by the EU, but which have not yet become effective

The following amendments have been approved for use in the EU, but are not yet effective:

- Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* – The amendments clarify the definition of 'material' and how it should be applied.
- Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures − Interest Rate Benchmark Reform* – The amendments:
  - modify specific hedge accounting requirements, so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark, on which the hedged cash flows and cash flows of the hedging instrument are based, is not altered as a result of the interest rate benchmark reform;
  - apply to all hedging relationships that are directly affected by the interest rate benchmark reform;
  - do not affect any other consequences arising from the interest rate benchmark reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, then discontinuation of such hedging relationship is still required), and;
  - introduce requirements for detailed disclosures regarding the extent in which the amendments affect the entity's hedging relationships.
- Update of references to the conceptual framework in IFRS Standards – Due to an update of conceptual framework, the IASB updated references to the revised conceptual framework in IFRS Standards.

The Bank estimates that the above standards would not have had a material effect on these financial statements if they had been applied by the Bank in these financial statements.

New standards and amendments to existing standards published by the IASB, but have not yet been approved for use in the EU

The EU-approved IFRS do not differ significantly from the regulations issued by the IASB, with the exception of the following new standards and amendments to standards, which have not yet been approved for use in the EU:

- IFRS 17 *Insurance Contracts* – The new standard calls for measurement of insurance contracts in an amount of present value of payment and ensures a more uniform approach for measuring and recognising all insurance contracts. The purpose of these requirements is to achieve a coherent disclosure of insurance contracts based on uniform accounting principles. IFRS 17 replaces IFRS 4 *Insurance Contracts* and its interpretations on the date of adoption of the new standard.
- Amendments to IFRS 3 *Business Combinations* – The amendments are implemented to improve the definition of a business. The revised definition of a business specifies that the objective (result) of a business is to provide goods and services to customers, while the existing definition focuses on results in the form of dividends, lower costs or other economic benefits for investors and other entities.
- Amendments to IAS 1 *Presentation of Financial Statements* – The amendments introduce a more general approach to classification of liabilities based on contractual arrangements effective as at the reporting date.
- IFRS 14 *Regulatory Deferral Accounts* – The purpose of the standard is to enable entities that apply IFRS for the first time and recognise regulatory deferral accounts in line with previous generally applicable accounting principles, to continue disclosing these accounts following transition to IFRS.
- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* – The purpose of these amendments is to remove any discrepancy between IAS 28 and IFRS 10 as well as to clarify that the recognition of profit or loss in transactions involving an associate or joint venture depends on whether the sold or incurred assets constitute a venture.

The Bank estimates that the above new standards and amendments to existing standards would not have had a material effect on these financial statements if they had been applied by the Bank as at 31 December 2019.

2.3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These separate financial statements of Bank Gospodarstwa Krajowego contain data for the financial year from 1 January to 31 December 2019 as well as comparative financial data for the financial year from 1 January to 31 December 2018.

These financial statements have been prepared on the assumption that the Bank will continue as a going concern for at least twelve months after the reporting date. As at the date of approval of these financial statements, the Management Board of the Bank did not identify any facts or circumstances that would pose a risk for the Bank to continue as a going concern as a result of intended or forced discontinuation or material limitation of its operations.

Unless otherwise stated, the financial data in the financial statements is presented in the Polish złoty, rounded to PLN 1 thousand.

These financial statements of the Bank were prepared based on the following measurement principles:

- at fair value for financial assets and liabilities measured at fair value through profit or loss, including financial assets held for trading, and for financial assets measured at fair value through other comprehensive income,
- at amortised cost for other financial assets, including loans and advances and other financial liabilities,
- at historical cost less impairment allowances, for associates and subsidiaries and non-financial assets and liabilities,
- at fair value for investment property.

2.4. ESTIMATES AND ASSUMPTIONS

The Bank makes certain estimates and assumptions that affect both the financial statements and the accompanying notes. The estimates and assumptions made by the Bank for purposes of recognition of the respective amounts of assets and liabilities as well as revenue and costs are based on historical data and other factors which are available and considered appropriate under given circumstances.

The assumptions concerning the future and the available data are used for purposes of estimating the carrying amounts of assets and liabilities that cannot be measured reliably using other sources. While making such assumptions, the Bank takes into account the causes and sources of uncertainty that it is able to foresee at the end of the reporting period. Actual performance may differ from estimates.

The estimates and assumptions made by the Bank are reviewed on a regular basis. Estimation adjustments are recognised in the period when the estimates are modified, if they pertain to that period only. If the adjustments affect both the period of the modification and future periods, they are recognised in the period of the modification and in future periods.

Allowances for expected credit losses

The Bank applies the requirements of IFRS 9 regarding impairment for the recognition and measurement of a loss allowance for financial assets that are measured at amortised cost or at fair value through other comprehensive income. The methods for impairment tests and calculation of expected credit losses are described in Note 45 “Credit risk management”.

Fair value of derivatives, unlisted debt securities and receivables

Derivatives, unlisted debt securities and receivables recognised in the statement of financial position at fair value, with no active market identified, are measured using generally accepted measurement techniques, using inputs based on observable market data and professional judgment to the maximum extent possible. The measurement techniques and input data are reviewed on a regular basis. The estimated effect of changes in the fair value measurement of financial instruments is presented in Note 42 “Fair value of financial assets and financial liabilities”.

Provisions for defined benefit plans

A sensitivity analysis of provisions for defined benefit plans is presented in Note 34 “Provisions”.

Deferred tax assets

The Bank recognises deferred tax assets based on the assumption that it will generate taxable profit sufficient to realise the assets in the future. If the actual tax results were to deteriorate in the future, the above assumption might prove baseless.

2.5. SIGNIFICANT ACCOUNTING POLICIES

2.5.1 PRESENTATION OF THE STATEMENT OF FINANCIAL POSITION AND THE STATEMENT OF PROFIT OR LOSS

Apart from own activities, the Bank carries out commissioned activities, as part of which it operates:

- funds created, entrusted or transferred to BGK under separate legislation, whose statements of financial position and statements of profit or loss are presented as appendices to BGK's financial statements ("Funds"):
  - Inland Waterways Fund,
  - National Road Fund,
  - Railway Fund,
  - Thermal Modernisation and Refurbishment Fund,
  - Student Loan Fund,
  - Subsidy Fund,
  - Borrower Support Fund,
  - National Guarantee Fund,
  - Polish Science Fund,
- social and economic programmes, as well as programmes of local governments and regional development supported by public funds, including EU funds ("Programmes").

For detailed information on the Bank's commissioned activities see the Report of the Management Board on the Activities of the Bank.

In the statement of financial position, the Bank presents own activities and that part of commissioned activities which is treated as the Bank's assets and liabilities under IFRS. In the case of the Funds, these include the Bank's receivables from or liabilities to such Funds resulting from mutual settlements (the Fund's cash flows are carried out through the Bank). As for the Programmes, these include in particular cash transferred to the Bank to designated bank accounts.

The Bank's statement of profit or loss presents revenue and costs related to own activities and does not include revenue and costs of Funds and Programmes, except for costs incurred by the Bank for the purpose of management of commissioned activities and revenue obtained as remuneration for such management.

Presentation changes related to the Inland Waterways Fund

The Act on Financial Support of Inland Shipowners, the Inland Waterways Fund and the Reserve Fund of 31 July 2019 (Journal of Laws of 2019, item 1901), repealing the Act on the Inland Waterways Fund and the Reserve Fund of 28 October 2002, entered into force on 9 November 2019. Before the effective date of the act, the assets and liabilities of the Inland Waterways Fund had been recognised in the Bank's statement of financial position, while the Fund's revenue and costs were recognised in the Bank's statement of profit or loss. Once the act referred to above became effective, the Bank does not bear the risk of lending activities of the Inland Waterways Fund, thus it has derecognised assets and liabilities of the Inland Waterways Fund from the statement of financial position and its revenue and costs from the statement of profit or loss, as a result of which the Bank discloses the Inland Waterways Fund's financial data consistently with the procedure applicable to Funds. The net profit of the Inland Waterways Fund earned until the date of the Fund's reclassification will be entirely allocated for the increase of the Inland Waterways Fund.

2.5.2 FOREIGN CURRENCIES

Functional and presentation currency

The functional currency (the currency of the primary economic environment where the Bank operates) and presentation currency is the Polish złoty.

Translation of foreign currency items

Foreign exchange gains (losses) arising from the settlement of transactions and the accounting measurement of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains (losses) arising from translation of equity instruments classified as financial assets measured at fair value through other comprehensive income are recognised in other comprehensive income.

At the end of each reporting period:

- foreign currency monetary items are translated at the closing rate,
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction,
- non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

(in PLN thousand)

Assets, liabilities and equity, and off-balance-sheet liabilities in foreign currencies and indexed to a foreign exchange rate are measured at the mid-market exchange rate quoted for a given currency by the National Bank of Poland as at the reporting date.

Mid-market exchange rates of selected foreign currencies relative to the Polish złoty:

Currency	31 Dec 2019	31 Dec 2018
EUR	4.2585	4.3000
GBP	4.9971	4.7895
USD	3.7977	3.7597
CHF	3.9213	3.8166

2.5.3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand and in nostro account at the National Bank of Poland as well as cash in the current accounts in banks and other cash with original maturity of up to 3 months. These assets are recognised at nominal value.

2.5.4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

2.5.4.1 Initial recognition

The Bank recognises a financial asset or a financial liability in its statement of financial position when, and only when, it becomes party to the contractual provisions of the financial instrument.

2.5.4.2 Classification and measurement

Classification of financial assets that are not equity instruments

The Bank classifies financial assets that are not equity instruments to one of the following categories:

1) financial assets at amortised cost;

2) financial assets at fair value through other comprehensive income;

3) financial assets at fair value through profit or loss, including:

- obligatorily measured at fair value through profit or loss;
- irrevocably designated as at fair value through profit or loss at initial recognition.

Financial assets at amortised cost

The Bank classifies financial assets that are not equity instruments to this category, if:

1) the asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and

2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI – solely payments of principal and interest).

Financial assets classified in this category are measured at amortised cost with the use of the effective interest rate method and taking into account allowances for expected credit losses. Amortised cost is determined with regard to a discount or a premium as well as fees, charges and transaction costs, which form an integral part of the effective interest rate. The effect of measurement is recognised under "Interest income" in the statement of profit or loss. Loss allowance for expected credit losses are recognised in the statement profit or loss under "Net impairment losses and provisions".

The financial assets at amortised cost category includes primarily: loans and advances to customers, municipal and commercial bonds, and reverse repurchase agreements.

Financial assets at fair value through other comprehensive income

The Bank classifies financial assets that are not equity instruments to this category, if:

a) the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and

b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Changes in fair value are recognised in other comprehensive income until an asset is removed from the statement of financial position, at which time accumulated gains (losses) are recognised in profit or loss. The revaluation reserve is recognised in profit or loss when the asset is sold.

For financial assets classified in this category the Bank determines allowances for expected credit losses, which are recognised under other comprehensive income in correspondence with the statement of profit or loss. Allowances for expected losses do not adjust the carrying amount of financial assets measured at fair value through other comprehensive income.

Interest income and a discount or a premium related to debt instruments are deferred – with the use of an effective interest rate and recognised in net interest income as "Interest income".

Quoted market prices based on which the fair value of government debt instruments is measured are obtained from widely available information systems. Where no quoted market prices are available for a given debt instrument (e.g. municipal bonds, commercial bonds), the fair value is not determined on the basis of the quoted market prices but using the NPV technique (net present value of future cash flows). The present value is calculated by reference to market yield curves obtained from widely available information systems (zero-coupon yield curves or curves based on the yield on government debt instruments are used, depending on the instrument type). For non-government debt instruments, the present value of future cash flows is determined considering the issuer credit risk and the liquidity risk spread.

The financial assets at fair value through other comprehensive income measurement category includes in particular: treasury bonds, treasury bills, and municipal and commercial bonds.

Financial assets at fair value through profit or loss

The Bank classifies the following items as financial assets at fair value through profit or loss:

1) financial assets held for trading, including derivatives;
2) financial assets held under the business model whose objective is achieved by selling financial assets;
3) financial assets which are obligatorily classified to this category because they failed the SPPI test;
4) financial assets which were designated to this category at initial recognition, if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Equity instruments

The Bank classifies equity instruments:

1) to financial assets at fair value through profit or loss, or
2) to financial assets at fair value through other comprehensive income, provided that:
   - they are not held for trading;
   - they are not contingent consideration recognised by the Bank in a business combination.

Changes in fair value and any other items (e.g. dividend, gains/losses on sales) for equity instruments classified in the financial assets at fair value through profit or loss measurement category are recognised in the statement of profit or loss.

The Bank classifies in the fair value through other comprehensive income measurement category those equity instruments, which are not held for sale and are held as a long-term commitment related to the implementation of the Bank's strategy, implementation of government economic programmes or access to infrastructure which is material for the Bank's operations. The Bank may make such classification only at initial recognition of an asset in the accounting books and cannot subsequently reclassify the asset to other category.

A change in the fair value of equity instruments classified in the financial assets at fair value through other comprehensive income measurement category is recognised in other comprehensive income. Only dividend is recognised in the statement of profit or loss. Changes in the fair value of such equity instruments will never be reclassified to profit or loss (including upon disposal).

Business models

The Bank identifies the following business models for holding financial assets:
- holding financial assets to collect cash flows;
- holding financial assets to collect cash flows and sell the financial assets;
- selling financial assets.

Business models are determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The Bank accepts a sales transaction as consistent with the assumptions of the holding financial assets to collect cash flows model, if:

- the sales resulted from an increase in the credit risk and were aimed at minimising potential credit losses due to credit deterioration, or
- the sales were made close to maturity and the proceeds from the sales approximate the collection of the remaining contractual cash flows, or
- the sales are infrequent, or
- sales are insignificant in value, both individually and in aggregate.

The condition of infrequent sales is deemed fulfilled if not more than 1% (by volume) of all transactions out of a portfolio are sold in a given year.

The condition of sales insignificant in value is deemed fulfilled if not more than 5% (by value) of all transactions out of a portfolio are sold in a given year.

Assessment of the nature of cash flows

For the purposes of the assessment of the nature of collected cash flows (SPPI test) the Bank defines:

- capital as the fair value of a financial instrument at initial recognition,
- interest as a reflection of the time value of money and the credit risk associated with the nominal value of a financial instrument in a given period, as well as margin, liquidity risk and administrative costs.

The SPPI test consists in verifying whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. In particular, the following conditions are assessed:

- contingent events that affect the amount of the cash flows,
- financial leverage,
- terms of prepayment or extension of financing,
- terms limiting the right to seek legal claims to the collected cash flows,
- terms modifying the consideration for a change in the time value of money.

The assessment of the terms modifying the change in the time value of money is performed based on a qualitative or quantitative analysis.

Where a qualitative assessment does not make it possible to confirm the conclusion that the SPPI test has been passed, it is necessary to perform an assessment of the impact of the modified time value of money element. The objective of such assessment is to determine how different the contractual undiscounted cash flows could be from the undiscounted cash flows that would arise if a given agreement would not provide for a modified time value of money element. If the analysed cash flows are significantly different, the assessed asset is obligatorily classified to fair value through profit or loss measurement category, because the SPPI test has not been passed, i.e. the contractual terms result in the fact that the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding.

Financial liabilities

The Bank classifies all financial liabilities as measured at amortised cost, except for:

1) financial liabilities at fair value through profit or loss, including derivatives that are liabilities;
2) financial guarantee contracts, which after initial recognition the Bank (as an issuer of such a contract) subsequently measures at the higher of:
   - the amount of the allowance for expected credit losses, and
   - the fair value less, when appropriate, the cumulative amount of income recognised (settled amount of commission).

2.5.4.3 Reclassification

Reclassification of financial assets occurs only when the business model for managing financial assets is changed. In such an event, the asset is reclassified into a given category in accordance with the new business model.

Upon reclassification:

- of a financial asset out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in the statement of profit or loss;
- of a financial asset out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount;
- of a financial asset out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income;
- of a financial asset out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. The cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost;
- of a financial asset out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value and the effect of measurement is recognised in other comprehensive income;
- of a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

2.5.4.4 Modification of financial assets

A substantial modification of contractual cash flows related to a financial asset results in derecognition of the asset and recognition of a (new) modified financial asset.

The Bank considers a modification as substantial when one of the following criteria is met:

1) quantitative criteria:
   - extension of the credit duration by more than one year and more than twofold extension of the period remaining until the original maturity date (when both these conditions are met jointly);
   - increase in the amount of credit by at least 50%;
2) qualitative criteria:
   - redenomination of the loan;
   - assumption of debt (change of borrower);
   - change in terms resulting in a change of the SPPI test result;
   - change of funded assets where the purpose of the loan is changed.

A non-substantial modification of contractual cash flows related to a financial asset does not result in derecognition of the asset. In such situation the Bank recalculates the gross carrying amount of the financial asset and recognises a modification gain or loss in profit or loss.

The modification is treated as a change in estimates if the change in cash flows related to a financial asset results from existing contractual terms and it is solely related to the exercise by the Bank's customer of an available option.

2.5.4.5 Impairment

The Bank measures and recognises an allowance for expected credit losses on financial assets that are not equity instruments, which are:

1) measured at amortised cost;
2) measured at fair value through other comprehensive income;
3) contract assets or loan commitments and financial guarantee contracts.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

Evidence of impairment

Evidence that a financial asset is credit-impaired includes observable data about one or more of the following events:

1) significant financial difficulty of the issuer or the borrower;
2) a breach of contract, such as a default or non-payment;
3) the Bank or other lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
4) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
5) the disappearance of an active market for a given financial asset due to financial difficulties;
6) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Measurement of allowances for expected credit losses

The Bank measures an allowance for expected credit losses on financial assets in the following manner:

1) at an amount equal to 12-month expected credit losses (Stage 1) – if the credit risk on a financial instrument has not increased significantly since initial recognition; for such assets impairment is measured as 12-month expected credit losses;
2) at an amount equal to lifetime expected credit losses (Stage 2) – if the credit risk on that financial instrument has increased significantly since initial recognition (whether assessed on an individual or portfolio basis) – considering all reasonable and supportable information, including that which is forward-looking. For such assets the impairment loss is measured as lifetime expected credit losses;
3) at an amount equal to accumulated changes in lifetime expected credit losses from their initial recognition (Stage 3) – for impaired financial assets, for which impairment will be measured as lifetime expected credit losses.

The classification of financial assets to three stages and the determined impairment calculation method affect the recognition of interest income. Interest income on financial assets classified to Stages 1 and 2 are determined based on gross exposures (amortised cost of a financial asset, before adjustment for any allowances for expected credit losses) using the effective interest method. For Stage 3 assets – based on the amortised cost of those assets.

POCI assets comprise a separate category of financial assets. They are purchased or originated financial assets which at initial recognition are impaired due to a credit risk. Interest income on POCI assets is calculated based on net carrying amount using the effective interest rate adjusted for the credit risk recognised for the entire useful life of the asset.

Recognition of allowances for expected credit losses

Allowances for expected credit losses on financial assets at amortised cost adjust the carrying amount of the relevant asset and are recognised in profit or loss.

Allowances for expected credit losses on financial assets at fair value through other comprehensive income are recognised in other comprehensive income in correspondence with the profit or loss. Such loss allowances do not adjust the carrying amount of financial assets, because the assets are recognised at fair value.

Allowances for expected credit losses on trade receivables

The Bank applies the simplified method of measurement of allowances for expected credit losses on trade receivables. The loss allowance is calculated based on fixed indicators dependent on actual payment default.

2.5.4.6 Derecognition of financial assets and financial liabilities from the statement of financial position

The Bank derecognises a financial asset when, and only when:

1) the contractual rights to the cash flows from the financial asset expire, or
2) it transfers the financial asset.

While transferring a financial asset, the Bank evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. In this case:

1) if the Bank transfers substantially all the risks and rewards of ownership of the financial asset, it derecognises the financial asset and separately recognises as assets or obligations all the rights and obligations arising or maintained as a result of transfer;
2) if the Bank retains substantially all the risks and rewards of ownership of the financial asset, the entity continues to recognise the financial asset;
3) if the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it determines whether it has retained control of the financial asset. In that event:
   - if the Bank has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer,
   - if the Bank has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

Upon derecognition of a financial asset in whole, the difference between the carrying amount (measured at the date of derecognition) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

The Bank derecognises a financial liability (or its part) from its statement of financial position when the obligation specified in the contract is discharged or cancelled or expires.

2.5.5 FAIR VALUE MEASUREMENT

The Bank measures the fair value of a financial asset, financial liability or off-balance-sheet liabilities using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Determination of fair value is based on the following assumptions:

1) the financial asset or liability is exchanged in an orderly transaction between market participants to sell the financial asset or transfer the financial liability at the measurement date under current market conditions;
2) the sale of the financial asset or transfer of the financial liability is made:
   - in the principal market for the financial asset or liability; or
   - in the absence of a principal market, in the most advantageous market for the financial asset or liability.

When a quoted price for the transfer of an identical or a similar financial liability of the Bank is not available and the identical item is held by another party as a financial asset, the Bank measures the fair value of the liability from the perspective of a market participant that holds the identical item as a financial asset at the measurement date.

When a quoted price for the transfer of an identical or a similar financial liability of the Bank is not available and the identical item is not held by another party as a financial asset, the Bank measures the fair value of the liability using a valuation technique from the perspective of a market participant that owes the financial liability.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs for measurement techniques designed to determine the fair value of financial assets and liabilities are classified into three levels:

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical financial assets or liabilities that the Bank can access at the measurement date;
2) Level 2 inputs are inputs other than quoted prices in active markets, that are observable, either directly or indirectly. Such inputs include in particular, the following:
   - quoted prices for similar financial assets or liabilities in active markets,
   - quoted prices for identical or similar financial assets or liabilities in markets that are not active,
   - observable inputs other than quoted prices, in particular: interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spread, or market-corroborated inputs;

3) Level 3 inputs are unobservable inputs reflecting the assumptions that market participants would use when pricing financial assets or liabilities, including assumptions about risk.

If a quoted price in an active market is not available, the Bank determines the fair value of financial assets or liabilities by applying measurement techniques incorporating all factors that market participants would consider in setting a price, which are consistent with accepted economic methodologies for pricing financial instruments.

2.5.6 Repurchase and reverse repurchase transactions

Repo and sell-buy-back as well as reverse repo and buy-sell-back transactions are transactions involving the sale or purchase of securities with a commitment to repurchase or resell the security at an agreed date and at an agreed price.

Financial assets sold with a commitment to buy them back (repo and sell-buy-back transactions) are recognised by the Bank in the statement of financial position, with liabilities arising from the commitment to buy the securities back as a corresponding item of liabilities and equity. Such a solution is possible only where the Bank retains the risks and rewards of ownership of the financial asset despite its transfer. For transactions involving the purchase of securities with a commitment to resell them (reverse repo and buy-sell-back), the financial assets held by the Bank are presented as receivables arising from the repurchase clause.

Reverse repurchase agreements and liabilities due to repurchase agreements are measured at amortised cost. The difference between the sale/purchase and repurchase/resale price is treated as interest expense or income and deferred over the term of agreement. Securities in repo and sell-buy-back transactions are not derecognised from the statement of financial position and are measured using the principles applicable to the relevant categories of financial assets.

2.5.7 Derivatives

Derivative financial instruments and forward and futures transactions with a symmetrical risk profile are measured using the NPV technique (net present value of future cash flows). The present value of future cash flows is measured for each transaction based on properly constructed projection and discount curves. Projection curves are built based on quoted prices of deposits, FRA, IRS and basis swap rates appropriate for a given currency and the reference rate. Discount curves are built based on quoted prices of deposits, FRA and IRS rates, business swaps, currency swap basis, as well as swap points. OIS transactions are measured using a curve based on OIS rates in the transaction currency. Quoted market prices for curve building purposes are obtained from widely available information systems. Instruments denominated in a currency other than the Polish złoty are measured by reference to the mid-market exchange rate quoted by the National Bank of Poland for the measurement date.

Transactions with an asymmetrical risk profile (option transactions) are measured using Black-Scholes and Bachelier models, which are widely used on the market and rely on the implied (if quoted market prices are available) or historical volatilities (determined with the use of statistical models based on quoted market prices).

The fair value of financial instruments reflects the credit risk. In the case of debt instruments, a liquidity margin and a margin for the issuer's credit risk is applied. For derivatives, the credit value adjustment (CVA) and the debit value adjustment (DVA) are calculated.

In these financial statements, derivatives are presented on a net basis at the transaction level (positive fair values as assets and negative fair values as liabilities).

(in PLN thousand)

2.5.8 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Investments in subsidiaries and associates are recognised by the Bank according to their purchase price, taking into account the impairment allowances.

At least at each reporting date the Bank assesses whether there is any indication that an investment in subsidiaries and associates may be impaired. If such indication is found, the Bank estimates the recoverable amount of the investment, which is equal to the higher of the fair value of the investment less the transaction costs, or its value in use. When the carrying amount of an asset is higher than its recoverable amount, the Bank recognises an impairment allowance in the statement of profit or loss.

2.5.9 PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS

Property, plant and equipment

Property, plant and equipment (PPE) includes controlled fixed assets and expenditure on their development. These are assets of an estimated useful life exceeding one year, which are held for internal use or to be leased to third parties under a lease agreement, or for administrative purposes. Property, plant and equipment is recognised at historical cost less depreciation and impairment allowances.

Historical cost includes the cost of acquisition/construction of an asset and expenses directly related to its acquisition and bringing it to a working condition.

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. At initial recognition, intangible assets are measured at cost, and their value is subsequently decreased by accumulated amortisation and impairment allowances, if any.

The Bank uses the right of perpetual usufruct of land, whether acquired for consideration or free of charge. In 2018, the right of perpetual usufruct of land acquired for consideration (from third parties) was presented within intangible assets and was amortised over its useful life, while as of 2019 it is presented as leases under right-of-use assets. The right of perpetual usufruct of land acquired free of charge from the State Treasury is not disclosed in the statement of financial position.

Intangible assets of the Bank include assets with an estimated useful life of over one year, in particular: copyrights, licences.

Depreciation charges related to property, plant and equipment and amortisation charges related to intangible assets

Depreciation and amortisation apply to all items of non-current assets whose value is reduced as a result of their use over their estimated useful lives.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Items of property, plant and equipment and intangible assets are depreciated/amortised over their useful lives, starting from the first day of the month following immediately the month when the item was made available for use.

Depreciation and amortisation periods for groups of property, plant and equipment and intangible assets, as applicable at the Bank:

Property, plant and equipment	Periods
Buildings, premises, cooperative rights to premises	between 40 and 49 years
Leasehold improvements (to buildings and premises)	between 1 and 15 years
Machines, technical equipment, tools and devices	between 2 and 19 years
Computer sets	between 3 and 10 years
Vehicles	between 2 and 5 years

Intangible assets	Periods
Software	between 1 and 12 years
Other intangible assets	between 1 and 10 years

The residual value, the depreciation and amortisation rate and the useful life are reviewed on an annual basis and adjusted if necessary.

(in PLN thousand)

Impairment of property, plant and equipment and intangible assets

The Bank assesses whether there is any evidence of impairment of any non-financial non-current assets. The Bank estimates the recoverable amount as the fair value less cost of sale or the value in use of a non-current asset (whichever is higher) if such evidence is identified. Impairment allowances are recognised where the carrying amount of the asset exceeds its recoverable amount.

2.5.10 INVESTMENT PROPERTY

Investment property is a property (land or a building – or part of a building – or both) held by the Bank to earn rentals or for capital appreciation or both. At the same time, such property:

- is occupied by the Bank only to an inconsiderable extent,
- is not intended for sale in the ordinary course of the Bank's business.

Initially, investment property is recognised at cost. After initial recognition, its value is measured in the fair value model. Any gains or losses resulting from changes in its value are recognised in the statement of profit or loss for the period. Valuation services are provided by independent property appraisers.

2.5.11 LEASES

Policy applicable before 1 January 2019

The Bank was a party to lease agreements whereby it accepted or granted property, plant and equipment and investment property for a fee for an agreed period of time.

The Bank classified lease agreements with regard to extent to which the risks and rewards of ownership of the leased assets were allocated to the lessor and to the lessee.

The Bank entered into lease agreements under which the lessor retained substantially all the risks and rewards of ownership of the leased assets, which were classified as operating leases. Operating lease payments and the subsequent lease payments were recognised as an expense in the statement of profit or loss (over the lease term).

The table below presents information on operating leases concluded by the Bank as a lessee:

Operating lease agreements	2019	2018
Total future lease payments under irrevocable operating lease:	**x**	**47,840**
up to 1 year	x	18,688
between 1 and 5 years	x	28,572
over 5 years	x	580

Policy applicable after 1 January 2019

The Bank as a lessor

The Bank is a party to lease agreements whereby it grants investment property for a fee for an agreed period of time. In the case of leases which transfer substantially all risks and rewards incidental to the ownership of an underlying asset (financial lease), the leased asset is derecognised from the Bank's statement of financial position, but the Bank recognises a receivable in an amount equal to the present value of lease payments. Lease payments under agreements which do not qualify as finance leases are treated as operating leases and are recognised as revenue in the statement of profit or loss over the lease term, using the straight-line method.

The table below presents information on operating leases concluded by the Bank as the lessor:

Operating lease agreements	2019	2018
Total future lease payments under irrevocable operating lease:	**135**	**222**
up to 1 year	82	185
between 1 and 5 years	53	37

The Bank as a lessee

The Bank is also party to lease agreements under which it accepts third parties' property, plant and equipment to use it against consideration or to derive benefits from it over a defined term. They include agreements on lease of property (including perpetual usufruct of land), cars, IT infrastructure and equipment.

In the case of agreements which are, or contain, a lease, the Bank presents right-of-use assets and lease liabilities in the statement of financial position. At initial recognition, right-of-use assets are measured in an amount equal to lease liabilities increased by any lease payments made before the date of initial recognition or any initial direct costs incurred by the Bank. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate determined as a risk-free interest rate (e.g. T-bond interest rate) for a given agreement term, plus a margin. The incremental borrowing rates calculated by the Bank and applied to lease liabilities in 2019 for the following currencies stood as follows:

(in PLN thousand)

- for PLN – from 1.57% to 3.79%,
- for EUR – from 0.27% to 0.55%,
- for USD – 3.25%.

The Bank does not apply the requirements of IFRS 16 to short-term leases (up to 12 months) and leases of low-value assets (where the acquisition price of a new asset does not exceed PLN 10 thousand).

In determining the lease term, the Bank takes into account the non-cancellable period of a lease together with periods covered by an option to extend or terminate the lease. At the commencement date of a lease agreement, the Bank assesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option. To make the assessment, the Bank considers all relevant facts and circumstances that create an economic incentive to exercise, or not to exercise, the option. In determining the lease term and assessing the length of the non-cancellable period of a lease, the Bank applies the definition of an agreement and determines the period for which the agreement is enforceable. A lease is no longer enforceable when the Bank and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

In the case of contracts executed for an indefinite term, the Bank defines the lease term as a period in which the Bank is the most likely to use an asset, taking into account the costs relating to the termination of the lease. If such costs may be considered significant for either party, the lease term covers a period, in which such costs remain significant. The costs include both financial penalties provided for in the agreement and other non-contractual economic losses (e.g. loss of leasehold improvements undertaken, costs of acquisition of a new lease, such as negotiation costs, relocation costs).
If the lessor and the lessee have the right to terminate the agreement without permission of the other party, and if no costs were incurred in connection with a given agreement or there are no costs relating to the termination of the lease, or if such costs are insignificant, the lease term is considered equal to the termination period.

After the commencement date, the Bank measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Right-of-use assets are depreciated on a straight-line basis. The table below presents depreciation periods for major groups of right-of-use assets, as applicable at the Bank:

Right-of-use assets	Depreciation periods
Buildings and structures	between 1 and 7 years
Right of perpetual usufruct of land	between 25 and 74 years
Vehicles	between 2 and 3 years
IT hardware	between 2 and 4 years

After the commencement date, lease liabilities are measured at amortised cost, i.e. taking into account interest accrued on the lease liability less any interest paid and lease payments made, and revised interest in the case of reassessment or change of the lease term or reflecting any change of in-substance fixed lease payments. For details on right-of-use assets see Note 27. The maturity analysis is presented in Note 46.

In accordance with the requirements of IFRS 16 *Leases*, the Bank presents the depreciation charge for right-of-use assets, interest expense on lease liabilities, expenses relating to the use of right-of-use assets, expense relating to short-term leases and expense relating to leases of low-value assets in the statement of profit or loss (in accordance with IAS 17, until 31 December 2018 any expenses related to the use of leased assets had been disclosed in general administrative expenses).

Expense relating to leases incurred in 2019 are presented in the table below:

Amounts relating to leases recognised in statement of profit or loss	2019
expense relating to leases of low-value assets presented under “General administrative expenses”	124
expense relating to short-term leases presented under “General administrative expenses”	1,482
interest expense on lease liabilities	884
expense relating to service charges and non-deductible value added tax (VAT) not included in the measurement of lease liabilities	10,785

As at 31 December 2019, the Bank did not recognise any impairment of right-of-use assets.

2.5.12 OTHER PREPAYMENTS AND DEFERRED EXPENSES

Prepayments are recognised if the expenses pertain to months following the month when they were incurred. Prepayments (recognised in the statement of financial position under "Other assets") include mainly prepaid expenses and accrued revenue. Prepaid expenses include different types of expenses that will be recognised in profit or loss after the lapse of time, in future reporting periods, such as prepaid rental costs, insurance costs, and software maintenance.

Deferred expenses include costs of services provided to the Bank which have not been classified as their liabilities yet. Deferred expenses include expenses to be incurred by the Bank in the future, including the cost of bonuses, outstanding sick leaves, and jubilee awards. The Bank settles deferred income where it receives payment for services or goods to be provided or delivered in future reporting periods.

This in particular comprises deferred commissions and other income collected in advance whose recognition in profit or loss will be effected in future reporting periods.

Deferred expenses and deferred income are disclosed in the statement of financial position in "Other liabilities".

2.5.13 PROVISIONS

Provisions are liabilities the amount or due date of which are not certain. They are recognised when the Bank has a present (legal or constructive) obligation as a result of a past event, while it is probable that an outflow of resources embodying economic benefits will be required to fulfil the obligation and the amount of the obligation can be estimated reliably.

Where the effect of the time value of money is material, the amount of provision is determined by discounting estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and any potential risks specific to the liability.

The Bank recognises provisions in particular for litigation and claims with its counterparties, customers and third-party institutions, provisions for retirement, disability and post-mortem benefits.

2.5.14 EMPLOYEE BENEFITS

Short-term employee benefits at the Bank include benefits due within twelve months from the end of the reporting period, in which employees performed work, in particular salaries, wages, bonuses, paid annual leave, and social security contributions. The Bank recognises the estimated undiscounted amount of short-term employee benefits as an expense in the period they concern.

The Bank's long-term employee benefits include benefits which are due after 12 months from the end of the reporting period, in which employees performed work, in particular retirement, disability, post-mortem, and jubilee benefits. The relevant provision is measured using actuarial methods by a third-party actuary as the present value of the Bank's future liabilities to its employees considering the payroll and the level of salaries and wages as at the measurement date. Provision for employee benefits is presented under "Provisions" or "Other liabilities" and as other operating income and other operating expenses, as appropriate, or general administrative expenses. A certain amount of provisions for retirement, disability, and post-mortem benefits resulting from changes in actuarial (financial, demographic and other) assumptions made for purposes of measurement is recognised in other comprehensive income.

The Bank offers a post-employment benefit plan, known as the defined contribution plan, whereby it has a contractual obligation to make specified contributions to an employee pension plan. The fund, which also includes a return on invested contributions, is used for payment of post-employment benefits to employees. As a result, the Bank is not subject to a legal or constructive obligation to make additional contributions, if the pension fund's assets are insufficient to finance the benefits.

2.5.15 OFF-BALANCE-SHEET LIABILITIES GRANTED

In the course of its operations, the Bank enters into transactions which are not recognised in the statement of financial position as assets or liabilities at the conclusion date but result in the occurrence of contingent liabilities. A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank; or
- a present obligation that arises from past events but is not recognised in the statement of financial position because it is not probable that an outflow of funds or other assets will be required to settle the obligation or the amount of obligation cannot be measured with sufficient reliability.

Off-balance-sheet liabilities granted include mainly credit commitments and guarantee liabilities granted.

At initial recognition, off-balance-sheet liabilities granted are measured at fair value. In subsequent periods, at the reporting date they are measured at an amount of the allowance for expected credit losses in accordance with IFRS 9.

2.5.16 EQUITY

Classification into the items presented below is made in compliance with the requirements of the Act on Bank Gospodarstwa Krajowego and the Bank's Articles of Association adopted by way of Regulation of the Minister of Development.

Equity includes:

- statutory capital,
- supplementary capital,
- revaluation reserve (including in particular the value of financial assets at fair value through other comprehensive income and allowances for expected credit losses on such assets as well as actuarial gains and losses),
- other capital reserves (including the general banking risk reserve and reserve fund),
- retained earnings/accumulated loss,
- net profit (loss) for the period.

2.5.17 INCOME TAX

Income tax consists of current tax and deferred tax. Income tax is recognised in profit or loss. Deferred tax, depending on the source of the temporary differences, is recognised in profit or loss or in the statement of comprehensive income.

Current tax

Current tax is a tax liability related to taxable profit and determined using a tax rate in force as at the end of the reporting period.

Deferred tax

The Bank recognises deferred tax assets and liabilities. Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences, the carryforward of unused tax losses, and the carryforward of unused tax credits. The Bank's deferred tax assets and liabilities are recognised in the statement of financial position as assets or liabilities, as the case may be. A change in the deferred tax liabilities and assets is recognised directly in the statement of profit or loss except for the effects of measurement of financial assets measured at fair value through other comprehensive income and actuarial gains and losses recognised in other comprehensive income, in case of which changes in the deferred tax liabilities and assets are also recognised in other comprehensive income. Deferred tax reflected in the statement of profit and loss is measured by reference to the deferred tax assets and liabilities at the beginning and at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that future taxable profit will be available against which the deferred tax assets can be realised in whole or in part.

The deferred tax assets and liabilities are measured by reference to tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) in effect at the end of the reporting period or those certain to enter into force in the future as at the end of the reporting period.

The Bank applies a 19% rate for purposes of deferred tax. The Bank offsets deferred tax assets against deferred tax liabilities when, and only when, there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax relates to the same income tax levied by the same taxation authority.

Where the Bank is a party to lease agreements under which it uses third parties' property, plant and equipment for which it pay consideration and derive benefits from it over a defined term, thus presents right-of-use assets and lease liabilities in the statement of financial position, it is assumed that the tax value of such assets and liabilities is zero. In such cases, the Bank recognises deferred tax liabilities calculated based on the current carrying amount of right-of-use asset and deferred tax assets calculated based on the current carrying amount of lease liabilities.

2.5.18 MEASUREMENT OF PROFIT/LOSS

Interest income and expense

Interest income comprises interest and fees (received or due) taken into account in the calculation of the effective interest rate for, *inter alia*: loans with agreed repayment schedules, interbank deposits, and financial instruments classified to the fair value through other comprehensive income or profit or loss measurement category.

In the case of financial assets for which a Stage 3 allowance for expected credit losses was recognised, the item includes impairment interest adjustment.

Fee and commission income and expense

Bank fee and commission income and expense concern mainly financial services offered by the Bank and comprise in particular: commissions on credits granted and guarantee liabilities, costs of securities operations, and management fees as well as costs related to administration and management of funds and programmes. Commissions/fees are settled in the period of transactions, except for fees and commissions on administrative activities which are recognised on a one-off basis in profit or loss.

Commission income and expense also include fees, whether received or paid, on financial instruments without an agreed repayment schedule. Fees on overdraft facilities, guarantees granted, and other revolving facilities are deferred and classified as commission income.

In relation to bancassurance products, the Bank, as the policyholder, offers free-of-charge insurance coverage to credit card holders in the form of an additional card functionality, which is an integral feature of the payment card and does not involve any additional fees on the part of the customer. Payment card insurance costs are deferred and recognised in profit or loss as commissions.

Net gains (losses) on financial instruments at fair value through profit or loss and foreign exchange gains (losses)

Net gains (losses) on financial instruments at fair value through profit or loss comprises gains and losses resulting from changes in the fair value of assets classified as held for trading and those which were designated as at fair value through profit or loss at initial recognition or are obligatorily measured at fair value through profit or loss.

Foreign exchange gains or losses comprise gains or losses, whether realised or not, resulting from the daily measurement of foreign currency assets and liabilities at the mid-market exchange rate quoted by the National Bank of Poland (NBP) as at the end of the reporting period. In addition, foreign exchange gains (losses) include the net realised and unrealised gain/loss, including the effects of changes in the measurement related to such derivatives as FX FORWARD, FX SWAP (including swap points), CIRS or FX options.

The item does not include the interest portion of the net gain/loss on interest rate derivatives and swap points on FX derivatives classified in the banking book, which are recognised under interest income and expenses.

Net gains (losses) on investments in financial assets

Net gains (losses) on investments in financial assets comprises gains and losses arising from the sale of financial instruments classified to the portfolio of financial assets at fair value through profit or loss as well as dividend income.

Net gains (losses) on modifications

Net gains (losses) on modifications include gains and losses on a non-substantial modification, which did not result in derecognition of an asset from the statement of financial position. Upon a non-substantial modification, the modification gain or loss in a given asset is recognised in the statement of profit or loss and is subsequently amortised until derecognition of the asset from the statement of financial position.

Other operating income and expenses

Other operating income and expenses comprise income and expenses which are not directly related to banking operations. Other operating income includes mainly income from: investment property at fair value, bad debt that has been recovered, received damages, penalties, fines, reversal of provisions for litigation and legal claims and other receivables as well as from the sale of property, plant and equipment and investment property. Other operating expenses include mainly: costs of donations, costs of debt collection, recognition of provisions for litigation and legal claims and other amounts due, and the costs of fair-value measurement and maintenance of investment property.

General administrative expenses

The item includes costs relating to: employee benefits (including payroll, social insurance and training), material costs, depreciation of property, plant and equipment, amortisation of intangible assets, along with taxes and charges.

Net impairment losses and provisions

The item includes increases and decreases related to allowances for expected credit losses on assets at amortised cost (in particular loans and advances, purchased debt and fulfilled guarantees and sureties), the related off-balance-sheet items, subordinates and financial assets at fair value through other comprehensive income.

3. OPERATING SEGMENTS

Information on operating segments is presented in the consolidated financial statements of the Bank Gospodarstwa Krajowego Group for the financial year ended 31 December 2019.

(in PLN thousand)

NOTES TO THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

4. INTEREST INCOME AND EXPENSE

Interest income	2019	2018
Interest income calculated with the use of the effective interest rate method	**2,030,899**	**1,750,495**
Income on financial instruments at amortised cost, including:	1,353,894	989,368
amounts due from banks	159,917	83,469
loans and advances to customers	999,526	746,357
debt instruments	194,451	159,542
Income on financial assets at fair value through other comprehensive income	677,005	761,127
Income of similar nature to interest income on instruments at fair value through profit or loss	**177,338**	**152,129**
Income on financial assets held for trading, including:	169,995	144,581
from derivatives – banking book	169,463	144,366
Income on financial assets obligatorily measured at fair value through profit or loss	4,949	5,427
Income on financial assets designated as at fair value through profit or loss	2,394	2,121
Total	**2,208,237**	**1,902,624**

Interest expense	2019	2018
Cost of financial instruments at amortised cost, including	**1,223,118**	**1,005,028**
amounts due to banks	77,267	21,976
liabilities to customers	1,003,170	854,689
issue of debt securities	141,797	128,363
lease liabilities	884	x
Costs of derivatives – banking book	**39,389**	**14,761**
Total	**1,262,507**	**1,019,789**

5. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income relates to:	2019	2018
Securities operations	10,621	12,248
Settlements	14,049	11,523
Loans and advances granted	43,283	38,194
Custody activity	77	29
Fund and programme management	63,792	58,753
Guarantee commitments	84,885	64,127
Other commissions	15,291	15,947
Total	**231,998**	**200,821**

Fee and commission expense relates to:	2019	2018
Commissions on operating services	2,259	1,654
Custody activity	2,434	1,707
Settlement activity	2,653	2,589
Fund and programme management	1,447	1,142
Guarantee commitments	237	254
Other commissions	3,852	3,096
Total	**12,882**	**10,442**

(in PLN thousand)

6. NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS AND FOREIGN EXCHANGE GAINS (LOSSES)

Net gains (losses) on financial instruments at fair value through profit or loss and foreign exchange gains (losses)	2019	2018
Gain/loss on financial liabilities designated as at fair value through profit and loss, including:	**-314**	**-652**
Debt instruments	-314	-652
Gain/loss on financial instruments obligatorily measured at fair value through profit or loss, including:	**73,249**	**34,373**
Debt instruments	1,528	8,067
Equity instruments	-13,449	-565
Loans and advances	-30	2,383
Other*	85,200	24,488
Gain/loss on financial instruments held for trading, including:	**-3,194**	**-8,058**
Debt instruments	546	76
Derivatives	-3,740	-8,134
Foreign exchange gains (losses)	**50,344**	**26,420**
Total	**120,085**	**52,083**

* Relates to investments in Marguerite funds and the Polish Growth Fund of Funds (PGFF)

7. NET GAINS (LOSSES) ON INVESTMENTS IN FINANCIAL ASSETS

Net gains (losses) on investments in financial assets	2019	2018
Disposal of investments in subsidiaries and associates	0	3,800
Cancellation of investment certificates	26,251	0
Debt instruments at fair value through other comprehensive income	44,986	26,600
Financial assets at amortised cost	3,753	601
Dividend, including:	36,958	17,400
from issuers of equity instruments designated as at fair value through other comprehensive income	36,958	17,400
Net gains (losses) on investments in financial assets	**111,948**	**48,401**

As regards debt instruments at fair value through other comprehensive income, the Bank transferred PLN 44,986 thousand in 2019 from other comprehensive income to the statement of profit or loss, compared to PLN 26,600 thousand transferred in 2018.

8. NET GAINS (LOSSES) ON MODIFICATIONS

The table below presents the net gain/loss on modification of cash flows related to financial assets.

	2019	2018
Financial assets at amortised cost	-9,171	-3,429
Total	**-9,171**	**-3,429**

9. OTHER OPERATING INCOME AND EXPENSES

Other operating income	2019	2018
Rental income, including:	244	335
rental income from investment property	67	71
Income on sale or liquidation of property, plant and equipment	2,207	14
Received damages, penalties and fines	132	5,061
Bad debt collected	26	81
Release of provisions and impairment allowances on other assets*	93,481	219
Measurement of investment property at fair value	164	1,322
Other income	1,043	978
Total	**97,297**	**8,010**

* Including PLN 93,328 thousand from reversal of the provision for the KFM (NHF - National Housing Fund).

(in PLN thousand)

Other operating expenses	2019	2018
Cost of donations, including:	21,051	4,015
statutory activities of J.K. Steczkowski BGK Foundation	13,000	4,000
Cost of debt collection	908	332
Cost of recognition of provisions for litigation and legal claims, other future liabilities	2,367	68,068
Cost of recognition of impairment loss on property, plant and equipment and intangible assets*	0	14,272
Cost of writing off past due and cancelled receivables, bad debt, damages, penalties and fines	26	445
Cost of recognition of impairment allowances on other assets	434	266
Cost of investment property	817	1,033
Measurement of investment property at fair value	0	2,512
Other operating expenses	1,113	617
Total	**26,716**	**91,560**

* For more information see Note 25 and 26.

10. General administrative expenses

General administrative expenses	2019	2018
Employee benefits	319,815	273,048
Material costs	106,652	98,153
Depreciation and amortisation, including:	35,267	20,762
property, plant and equipment	13,839	12,875
intangible assets	8,285	7,887
right-of-use assets	13,143	x
Taxes and charges	14,152	10,125
Total	**475,886**	**402,088**

Employee benefits	2019	2018
Salaries and wages	262,342	222,389
Social security	39,786	34,652
Other employee benefits	17,687	16,007
Total	**319,815**	**273,048**

11. Net impairment losses and provisions

Net impairment losses and provisions	2019	2018
Amounts due from banks at amortised cost	-720	-65
Loans and advances to customers at amortised cost	-76,495	-68,066
Debt securities at amortised cost	-16,361	-3,510
Debt securities at fair value through other comprehensive income	-2,232	-2,823
Investments in subsidiaries and associates*	-175,370	-41,165
Provision for contingent liabilities and guarantees granted	-132,627	-49,540
Total	**-403,805**	**-165,169**

* In 2018, an impairment allowance was recognised on shares in BGKN S.A. (currently PFRN S.A.) in the amount of PLN 37,942 thousand. In 2019, an impairment allowance was recognised on FIPP FIZ AN in the amount of PLN 172,606 thousand.

(in PLN thousand)

12. INCOME TAX

Major items of the tax charge and reconciliation of the effective tax rate for the year ending on 31 December 2019 and 31 December 2018:

Items of the tax charge	2019	2018
Current tax charge	-150,872	-113,938
Deferred tax related to occurrence and reversal of temporary differences	83,459	39,823
Income tax presented in the statement of profit or loss	**-67,413**	**-74,115**
Income tax presented in other comprehensive income and related to occurrence and reversal of temporary differences	22,977	13,888
Total	**-44,436**	**-60,227**

Reconciliation of the effective tax rate	2019	2018
Profit before tax	578,598	519,462
Income tax at Poland's statutory tax rate (19%)	-109,934	-98,698
Effect of permanent differences between profit before tax and taxable income, including:	**42,521**	**24,583**
Non-deductible impairment allowances and provisions	-1,766	-96
Effect of other differences between profit before tax and taxable income, including donations	-2,723	-1,514
Activities exempt from taxation	47,010	26,193
Income tax presented in the statement of profit or loss	**-67,413**	**-74,115**
Effective tax rate	**11.65%**	**14.27%**

Under Article 17.1.37 and Article 17.1.51 of the Corporate Income Tax Act of 19 February 1992 (Journal of Laws of 2018, item 1036, as amended), any income generated by the funds and government programmes is not subject to income tax where it is used for purposes related to their activities. In light of the above, the Bank does not recognise any income tax charge on the profit generated by the funds or government programmes, which applies to the Residential Construction Support Government Programme, Social Rental Housing Government Programme, and Support of Entrepreneurship with BGK Sureties and Guarantees Government Programme, and applied to the Inland Waterways Fund when it was recognised in the Bank's assets and liabilities.

(in PLN thousand)

Deferred tax for the year ending on 31 December 2019 and 31 December 2018 results from the following items:

Deferred tax assets/liabilities	31 Dec 2019	2019		31 Dec 2018	2018		Effect of application of IFRS 9 1 Jan 2018		31 Dec 2017
	Statement of financial position	Statement of profit or loss	Other comprehensive income	Statement of financial position	Statement of profit or loss	Other comprehensive income	Retained earnings (accumulated loss)	Revaluation reserve	
Interest accrued on credit exposures	52,540	45,351	0	7,189	-2,278	0	0	0	9,467
Valuation of derivative financial instruments	16,510	4,205	0	12,305	3,130	0	0	0	9,175
Discount, interest and securities valuation	87,834	11,110	-22,276	99,000	4,242	-14,026	9,969	-9,969	108,784
Difference between the carrying amount and the tax base of property, plant and equipment and intangible assets, including leases	21,778	9,330	-13	12,461	3,053	0	0	0	9,408
Other, including IBNR	6,929	6,879	8	42	-65	0	0	0	107
Gross deferred tax liabilities	**185,591**	**76,875**	**-22,281**	**130,997**	**8,082**	**-14,026**	**9,969**	**-9,969**	**136,941**
Interest accrued on deposit liabilities	7,197	1,468	0	5,729	-22,218	0	0	0	27,947
Valuation of derivative financial instruments	23,845	5,554	0	18,291	5,661	0	0	0	12,630
Premium, interest and securities valuation	28,868	5,760	113	22,995	16,482	-299	3,614	-588	3,786
Debt securities issued	8,155	1,308	0	6,847	-1,090	0	0	0	7,937
Provisions for employee benefits, including deferred payments	18,935	2,642	583	15,710	4,257	161	0	0	11,292
Provisions for future liabilities	13,074	51	0	13,023	12,855	0	0	0	168
Impairment allowances for assets and provisions for off-balance sheet liabilities	285,711	129,595	0	156,116	30,373	0	-3,712	-344	129,799
Deferred commissions	24,611	4,861	0	19,750	4	0	0	0	19,746
Accrued expenses	2,603	-50	0	2,653	1,580	0	0	0	1,072
Other, including leases	9,146	9,145	0	1	1	0	0	0	0
Gross deferred tax assets	**422,145**	**160,334**	**696**	**261,115**	**47,905**	**-138**	**-98**	**-932**	**214,377**
Deferred tax assets (disclosed in the statement of financial position)	**236,554**	**83,459**	**22,977**	**130,118**	**39,823**	**13,888**	**-10,067**	**9,037**	**77,436**

(in PLN thousand)

The long-term portion of deferred tax to be realised or paid following the expiry of 12 months is:

	31 Dec 2019	31 Dec 2018
assets – long-term portion	311,058	156,767
liabilities – long-term portion	49,280	12,461

	31 Dec 2019	31 Dec 2018
The nature of evidence supporting recognition of deferred tax assets in connection with realisation of deferred tax assets depending on generation of a taxable profit in the future in the amount that will exceed gains from reversal of the existing taxable temporary differences and on loss incurred in the current or previous period in the tax jurisdiction, to which the deferred tax asset relates, is:	based on future yield rate in the upcoming 5 years at the cumulative level of at least PLN 1,245 million	based on future yield rate in the upcoming 5 years at the cumulative level of at least PLN 684.8 million

13. Earnings per share

The Bank is not an issuer of shares. The legal status of the Bank is described in Note 1.

14. Contribution to the State Budget

In 2019, the Bank made a contribution to the State Budget from the net profit for 2018 in the amount of PLN 364,745 thousand.

In 2018, the Bank made a contribution to the State Budget from the net profit for 2017 in the amount of PLN 424,253 thousand.

(in PLN thousand)

Notes to the statement of financial position

15. Cash and balances with the Central Bank

Cash and balances with the Central Bank	31 Dec 2019	31 Dec 2018
Cash in hand	0	609
Current account	8,729,184	8,668,176
Deposits	14,000,192	8,000,110
Total	**22,729,376**	**16,668,895**

The Bank is obliged to maintain a statutory reserve at the National Bank of Poland that can be used by the Bank on condition that an average balance per month in the current account at NBP is not lower than declared.

From 31 December 2019 to 30 January 2020, the Bank was obliged to keep an average balance totalling PLN 2,416,567 thousand, whereas from 31 December 2018 to 30 January 2019 – a total of PLN 2,401,845 thousand.

16. Amounts due from banks

Amounts due from banks	31 Dec 2019	31 Dec 2018
Current accounts	5,252,111	4,394,164
Bank deposits	1,057,542	2,581,499
Loans and advances	514,074	642,793
Purchased debt	12,969	11,925
Other receivables	11,174	275,131
Total	**6,847,870**	**7,905,512**
Impairment allowances	-1,805	-1,085
Total, net	**6,846,065**	**7,904,427**

Cash deposited with banks includes assets securing the payment of the Bank's liabilities, including settlements related to loss on valuation of derivatives. As at 31 December 2019, the assets totalled PLN 6,079 thousand, relative to PLN 270,370 thousand as at 31 December 2018.

The tables below present the change in gross amounts and impairment allowances on amounts due from banks.

Amounts due from banks at amortised cost	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Gross carrying amount as at 31 December 2018	**7,905,512**	**0**	**0**	**0**	**7,905,512**
Transfer to Stage 1	0	0	0	0	0
Transfer to Stage 2	0	0	0	0	0
Transfer to Stage 3	-348	0	348	0	0
New/purchased/granted financial assets	48,369,922	0	688	0	48,370,610
Derecognition of financial assets	-49,303,348	0	-346	0	-49,303,694
Other changes (including partial repayments and disbursements of further tranches)	-124,556	0	-2	0	-124,558
Gross carrying amount as at 31 December 2019	**6,847,182**	**0**	**688**	**0**	**6,847,870**
Impairment allowance					
Impairment allowances as at 31 December 2018	**1,085**	**0**	**0**	**0**	**1,085**
Transfer to Stage 1	0	0	0	0	0
Transfer to Stage 2	0	0	0	0	0
Transfer to Stage 3	0	0	0	0	0
New/purchased/granted financial assets	8,306	0	218	0	8,524
Derecognition of financial assets	-8,778	0	-118	0	-8,896
Changes in credit risk level (excluding transfers between stages)	1,005	0	129	0	1,134
Other changes (foreign exchange gains (losses))	-40	0	-2	0	-42
Impairment allowances as at 31 December 2019	**1,578**	**0**	**227**	**0**	**1,805**

(in PLN thousand)

Amounts due from banks at amortised cost	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Gross carrying amount as at 31 December 2017					**3,090,230**
Effect of application of IFRS 9	**0**	**0**	**0**	**0**	**0**
Gross carrying amount as at 1 January 2018	**3,090,230**	**0**	**0**	**0**	**3,090,230**
Transfer to Stage 1	0	0	0	0	0
Transfer to Stage 2	0	0	0	0	0
Transfer to Stage 3	0	0	0	0	0
New/purchased/granted financial assets	52,494,836	0	0	0	52,494,836
Derecognition of financial assets	-47,626,604	0	0	0	-47,626,604
Other changes (including partial repayments and disbursements of further tranches)	-52,950	0	0	0	-52,950
Gross carrying amount as at 31 December 2018	**7,905,512**	**0**	**0**	**0**	**7,905,512**
Impairment allowance					
Impairment allowances as at 31 December 2017					**482**
Effect of application of IFRS 9	**538**	0	0	0	**538**
Impairment allowances as at 1 January 2018	**1,020**	**0**	**0**	**0**	**1,020**
Transfer to Stage 1	0	0	0	0	0
Transfer to Stage 2	0	0	0	0	0
Transfer to Stage 3	0	0	0	0	0
New/purchased/granted financial assets	5,926	0	0	0	5,926
Derecognition of financial assets	-5,316	0	0	0	-5,316
Changes in credit risk level (excluding transfers between stages)	-545	0	0	0	-545
Impairment allowances as at 31 December 2018	**1,085**	**0**	**0**	**0**	**1,085**

17. FINANCIAL ASSETS AND FINANCIAL LIABILITIES HELD FOR TRADING

Financial assets held for trading at carrying amount	31 Dec 2019	31 Dec 2018
Derivatives	574,907	978,863
Debt instruments	1,666	617
Total	**576,573**	**979,480**

Debt instruments by issuer	31 Dec 2019	31 Dec 2018
Issued by the State Treasury	1,666	617
treasury bonds	1,666	617
Total	**1,666**	**617**

The fair values of derivatives as at 31 December 2019 and 31 December 2018 are presented in the table below:

Derivatives – fair value				
Contract type	31 Dec 2019		31 Dec 2018	
	Assets	Liabilities	Assets	Liabilities
FX Swap	67,682	2,737	28,378	10,793
Forward	14,854	16,841	3,246	22,073
Options	104	104	654	656
CIRS	405,481	372,831	882,509	867,192
IRS	86,786	218,817	64,076	676,281
Total	**574,907**	**611,330**	**978,863**	**1,576,995**

Derivatives – nominal value				
Contract type	31 Dec 2019		31 Dec 2018	
	Call	Put	Call	Put
FX Swap	343,301	8,672,687	207,293	11,598,320
Forward	866,605	923,801	445,733	575,995
Options	36,701	36,701	66,643	66,643
CIRS	12,348,740	13,278,620	14,151,194	14,323,194
IRS	6,800,306	5,423,728	28,511,255	6,042,315
Total	**20,395,653**	**28,335,537**	**43,382,118**	**32,606,467**

(in PLN thousand)

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (OTHER THAN HELD FOR TRADING)

Financial assets at fair value through profit or loss		
At carrying amount	**31 Dec 2019**	**31 Dec 2018**
Obligatorily measured at fair value through profit or loss	648,063	523,347
Designated as at fair value through profit or loss	173,135	216,794
Total	**821,198**	**740,141**

Financial assets obligatorily measured at fair value through profit or loss		
At carrying amount	**31 Dec 2019**	**31 Dec 2018**
Debt instruments, including:	54,036	52,508
issued by enterprises	54,036	52,508
Equity instruments (listed)	11,657	25,106
Other financial assets*	582,370	445,733
Total	**648,063**	**523,347**

* Investments in Marguerite funds and the Polish Growth Fund of Funds (PGFF)

Financial assets designated as at fair value through profit or loss		
At carrying amount	**31 Dec 2019**	**31 Dec 2018**
Debt instruments		
Issued by the State Treasury, including:	87,051	88,211
treasury bonds	87,051	88,211
Issued by banks	86,084	86,364
Issued by local government units	0	42,219
Total	**173,135**	**216,794**

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets at fair value through other comprehensive income	31 Dec 2019	31 Dec 2018
Debt instruments		
issued by the State Treasury	10,636,369	9,370,263
- treasury bonds	10,636,369	9,370,263
issued by the National Bank of Poland (NBP)	3,598,124	1,412,281
- money bills	3,598,124	1,412,281
issued by banks	1,204,162	1,260,002
- corporate bonds	252,221	131,691
- subordinated bonds	722,600	718,602
- commercial bills	161,200	361,095
- covered bonds	68,141	48,614
issued by other financial entities	314,568	374,310
- corporate bonds	0	66,062
- subordinated bonds	314,568	308,248
issued by non-financial entities	1,561,526	895,292
- corporate bonds	1,147,182	895,292
- subordinated bonds	414,344	0
issued by local government units	1,806,566	1,442,528
- municipal bonds	1,806,566	1,442,528
Total debt instruments	**19,121,315**	**14,754,676**
Equity instruments		
listed	910,022	1,043,411
unlisted	40,989	36,116
Total equity instruments	**951,011**	**1,079,527**
Total financial assets at fair value through other comprehensive income	**20,072,326**	**15,834,203**
Impairment allowance on debt securities at fair value through other comprehensive income*	6,864	4,632

* The impairment allowance on debt securities at fair value through other comprehensive income is recognised under "Revaluation reserve" and does not decrease the carrying amount of the securities.

(in PLN thousand)

The tables below present the change in the value of receivables and impairment allowances on debt instruments at fair value through other comprehensive income.

Debt instruments at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	POCI	Total
Carrying amount as at 31 December 2018	**14,718,720**	**34,736**	**1,220**	**0**	**14,754,676**
Transfer to Stage 1	0	0	0	0	0
Transfer to Stage 2	-2,438	2,438	0	0	0
Transfer to Stage 3	0	-309	309	0	0
New/purchased/granted financial assets	379,642,921	0	0	0	379,642,921
Derecognition of financial assets	-372,489,426	0	-1,529	0	-372,490,955
Other changes (including partial repayments and disbursements of further tranches)	-2,784,743	-584	0	0	-2,785,327
Carrying amount as at 31 December 2019	**19,085,034**	**36,281**	**0**	**0**	**19,121,315**
Impairment allowance					
Impairment allowances as at 31 December 2018	**4,004**	**412**	**216**	**0**	**4,632**
Transfer to Stage 1	0	0	0	0	0
Transfer to Stage 2	-5	5	0	0	0
Transfer to Stage 3	0	-1	1	0	0
New/purchased/granted financial assets	60,512	0	0	0	60,512
Derecognition of financial assets	-56,727	0	-319	0	-57,046
Changes in credit risk level (excluding transfers between stages)	-1,176	-160	102	0	-1,234
Impairment allowances as at 31 December 2019	**6,608**	**256**	**0**	**0**	**6,864**

Debt instruments at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	POCI	Total
Carrying amount as at 31 December 2017					**0**
Effect of application of IFRS 9	**0**	**0**	**0**	**0**	**35,699,238**
Carrying amount as at 1 January 2018	**35,699,238**	**0**	**0**	**0**	**35,699,238**
Transfer to Stage 1	0	0	0	0	0
Transfer to Stage 2	-33,176	33,176	0	0	0
Transfer to Stage 3	-2,389	0	2,389	0	0
New/purchased/granted financial assets	421,281,142	0	0	0	421,281,142
Derecognition of financial assets	-437,733,619	0	-1,176	0	-437,734,795
Other changes (including partial repayments and disbursements of further tranches)	-4,492,476	1,560	7	0	-4,490,909
Carrying amount as at 31 December 2018	**14,718,720**	**34,736**	**1,220**	**0**	**14,754,676**
Impairment allowance					
Impairment allowances as at 31 December 2017					**0**
Effect of application of IFRS 9	**1,810**	**0**	**0**	**0**	**1,810**
Impairment allowances as at 1 January 2018	**1,810**	**0**	**0**	**0**	**1,810**
Transfer to Stage 1	0	0	0	0	0
Transfer to Stage 2	-434	434	0	0	0
Transfer to Stage 3	-214	0	214	0	0
New/purchased/granted financial assets	5,939	0	0	0	5,939
Derecognition of financial assets	-3,651	0	-205	0	-3,856
Changes in credit risk level (excluding transfers between stages)	554	-22	207	0	739
Impairment allowances as at 31 December 2018	**4,004**	**412**	**216**	**0**	**4,632**

19.1. RECLASSIFICATION OF FINANCIAL ASSETS

In 2019, the Bank did not reclassify any financial assets. In 2018, the Bank did not reclassify any financial assets other than those arising from application of IFRS 9.

(in PLN thousand)

20. Loans and advances to customers

20.1. Loans and advances to customers at amortised cost

Loans and advances to customers at amortised cost	31 Dec 2019			31 Dec 2018		
	Gross loans	Impairment allowances	Net loans	Gross loans	Impairment allowances	Net loans
Loans and advances to customers, including:	**31,829,693**	**1,067,569**	**30,762,124**	**26,720,999**	**937,376**	**25,783,623**
financial sector	**1,609,938**	**11,811**	**1,598,127**	**753,944**	**7,517**	**746,427**
loans and advances	1,492,416	11,746	1,480,670	643,306	7,499	635,807
guarantees and sureties	171	65	106	56	18	38
other receivables	117,351	0	117,351	110,582	0	110,582
non-financial sector	**21,966,353**	**914,912**	**21,051,441**	**19,013,925**	**825,706**	**18,188,219**
loans and advances	21,530,170	769,837	20,760,333	18,712,990	703,336	18,009,654
purchased debt	252,189	1,347	250,842	158,505	1,300	157,205
guarantees and sureties	183,986	143,728	40,258	140,017	118,709	21,308
other receivables	8	0	8	2,413	2,361	52
public sector	**8,253,402**	**140,846**	**8,112,556**	**6,953,130**	**104,153**	**6,848,977**
loans and advances	8,175,378	136,525	8,038,853	6,911,694	99,834	6,811,860
purchased debt	77,916	4,321	73,595	41,436	4,319	37,117
other receivables	108	0	108	0	0	0

The tables below present the change in the gross carrying amount and impairment allowances on loans and advances to customers at amortised cost.

Loans and advances to customers at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31 December 2018	**21,461,981**	**3,164,300**	**1,968,581**	**126,137**	**26,720,999**
Transfer to Stage 1	2,780,084	-2,566,715	-213,369	0	0
Transfer to Stage 2	-2,423,653	2,505,565	-81,912	0	0
Transfer to Stage 3	-145,778	-105,441	251,219	0	0
New/purchased/granted financial assets	12,824,276	564,523	432,396	0	13,821,195
Derecognition of financial assets	-2,183,239	-537,375	-123,435	-8,041	-2,852,090
Financial assets that have been written off in the statement of financial position	-8,011	0	-5,503	0	-13,514
Other changes (including partial repayments and disbursements of further tranches)	-4,877,147	-590,997	-260,712	-118,041	-5,846,897
Gross carrying amount as at 31 December 2019	**27,428,513**	**2,433,860**	**1,967,265**	**55**	**31,829,693**
Impairment allowance					
Impairment allowances as at 31 December 2018	**164,989**	**84,351**	**715,358**	**-27,322**	**937,376**
Transfer to Stage 1	40,864	-24,530	-16,334	0	0
Transfer to Stage 2	-41,965	47,216	-5,251	0	0
Transfer to Stage 3	-8,299	-4,454	12,753	0	0
New/purchased/granted financial assets	36,101	4,156	31,686	0	71,943
Derecognition of financial assets	-17,367	-4,179	-1,825	0	-23,371
Financial assets that have been written off in the statement of financial position	-10,387	0	-17,314	0	-27,701
Changes in credit risk level (excluding transfers between stages)	16,719	18,907	59,627	19,619	114,872
Other changes (foreign exchange gains (losses))	-1,072	-302	-4,176	0	-5,550
Impairment allowances as at 31 December 2019	**179,583**	**121,165**	**774,524**	**-7,703**	**1,067,569**

(in PLN thousand)

Loans and advances to customers at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31 December 2017					**27,992,000**
Effect of application of IFRS 9					**-5,681,942**
Gross carrying amount as at 1 January 2018	**18,814,603**	**1,538,802**	**1,771,519**	**185,134**	**22,310,058**
Transfer to Stage 1	2,340,884	-2,237,531	-103,353	0	0
Transfer to Stage 2	-3,762,585	3,779,395	-16,810	0	0
Transfer to Stage 3	-107,723	-30,371	138,094	0	0
New/purchased/granted financial assets	4,350,471	280,268	176,678	114,074	4,921,491
Derecognition of financial assets	-2,105,952	-68,361	-80,230	-84,062	-2,338,605
Financial assets that have been written off in the statement of financial position	-5	0	-360	0	-365
Other changes (including partial repayments and disbursements of further tranches)	1,932,288	-97,902	83,043	-89,009	1,828,420
Gross carrying amount as at 31 December 2018	**21,461,981**	**3,164,300**	**1,968,581**	**126,137**	**26,720,999**
Impairment allowance					
Impairment allowances as at 31 December 2017					**758,203**
Effect of application of IFRS 9					**74,829**
Impairment allowances as at 1 January 2018	**128,051**	**44,509**	**660,472**	**0**	**833,032**
Transfer to Stage 1	63,454	-53,442	-10,012	0	0
Transfer to Stage 2	-41,181	42,847	-1,666	0	0
Transfer to Stage 3	-1,558	-1,965	3,523	0	0
New/purchased/granted financial assets	26,758	5,611	10,380	0	42,749
Derecognition of financial assets	-28,110	-1,140	-16,227	0	-45,477
Financial assets that have been written off in the statement of financial position	0	0	-248	0	-248
Changes in credit risk level (excluding transfers between stages)	17,576	47,931	69,116	-27,322	107,301
Other changes	-1	0	20	0	19
Impairment allowances as at 31 December 2018	**164,989**	**84,351**	**715,358**	**-27,322**	**937,376**

20.2. LOANS AND ADVANCES TO CUSTOMERS OBLIGATORILY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Loans and advances to customers obligatorily measured at fair value through profit or loss	31 Dec 2019	31 Dec 2018
Loans and advances to customers		
public sector	**124,870**	**146,088**
loans and advances	124,870	146,088

Change in loans and advances to customers obligatorily measured at fair value through profit or loss	2019	2018
Carrying amount as at 31 December 2017	**x**	**0**
Effect of application of IFRS 9	**x**	**164,916**
Carrying amount as at the beginning of the period	**146,088**	**164,916**
Decreases	**21,218**	**18,828**
repayments	21,186	16,602
change in interest accrued	2	0
changes in fair value	30	2,226
Carrying amount as at the end of the period	**124,870**	**146,088**

21. DEBT INSTRUMENTS AT AMORTISED COST

Debt instruments by issuer	31 Dec 2019	31 Dec 2018
Debt instruments		
Issued by enterprises	6,087,725	5,855,297
Issued by local government units	1,310,209	1,026,473
Total	**7,397,934**	**6,881,770**

(in PLN thousand)

The tables below present the change in the gross carrying amount and impairment allowances on debt instruments at amortised cost.

Debt instruments at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31 December 2018	**5,313,854**	**1,019,275**	**681,389**	**0**	**7,014,518**
Transfer to Stage 1	769,983	-769,983	0	0	0
Transfer to Stage 2	-306,308	306,308	0	0	0
New/purchased/granted financial assets	1,316,053	0	17,405	0	1,333,458
Derecognition of financial assets	-338,225	-255,933	-17,992	0	-612,150
Other changes (including partial repayments and disbursements of further tranches)	-210,324	9,522	-5,431	0	-206,233
Gross carrying amount as at 31 December 2019	**6,545,033**	**309,189**	**675,371**	**0**	**7,529,593**
Impairment allowance					
Impairment allowances as at 31 December 2018	**11,405**	**15,547**	**105,796**	**0**	**132,748**
Transfer to Stage 1	13,934	-13,934	0	0	0
Transfer to Stage 2	-677	677	0	0	0
New/purchased/granted financial assets	9,091	0	180	0	9,271
Derecognition of financial assets	-1,915	-1,357	-766	0	-4,038
Financial assets that have been written off in the statement of financial position	-166	0	0	0	-166
Changes in credit risk level (excluding transfers between stages)	-1,408	7,715	-11,997	0	-5,690
Other changes	-33	0	-433	0	-466
Impairment allowances as at 31 December 2019	**30,231**	**8,648**	**92,780**	**0**	**131,659**

Debt instruments at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31 December 2017					**0**
Effect of application of IFRS 9					**5,686,149**
Gross carrying amount as at 1 January 2018	**4,704,539**	**32,393**	**949,217**	**0**	**5,686,149**
Transfer to Stage 1	339,158	-152,126	-187,032	0	0
Transfer to Stage 2	-1,362,891	1,362,891	0	0	0
New/purchased/granted financial assets	2,018,201	2,021	0	0	2,020,222
Derecognition of financial assets	-156,962	-210,625	-59,167	0	-426,754
Other changes (including partial repayments and disbursements of further tranches)	-228,191	-15,279	-21,629	0	-265,099
Gross carrying amount as at 31 December 2018	**5,313,854**	**1,019,275**	**681,389**	**0**	**7,014,518**
Impairment allowance					
Impairment allowances as at 31 December 2017					**0**
Effect of application of IFRS 9					**128,492**
Impairment allowances as at 1 January 2018	**23,636**	**432**	**104,424**	**0**	**128,492**
Transfer to Stage 1	22,698	-2,158	-20,540	0	0
Transfer to Stage 2	-7,622	7,622	0	0	0
New/purchased/granted financial assets	9,518	145	0	0	9,663
Derecognition of financial assets	-1,486	-9,449	-3,782	0	-14,717
Changes in credit risk level (excluding transfers between stages)	-35,339	18,955	24,781	0	8,397
Other changes	0	0	913	0	913
Impairment allowances as at 31 December 2018	**11,405**	**15,547**	**105,796**	**0**	**132,748**

22. Receivables and liabilities under reverse repurchase/repurchase agreements

Securities under repurchase agreements/reverse repurchase agreements	31 Dec 2019		31 Dec 2018	
	Receivables	Liabilities	Receivables	Liabilities
From banks	1,394,020	1,544,089	2,245,668	1,937,309
From customers	3,907,517	7,569,299	1,628,992	3,276,742
Total	**5,301,537**	**9,113,388**	**3,874,660**	**5,214,051**

(in PLN thousand)

23. INVESTMENTS IN SUBSIDIARIES

In the financial statements all subsidiaries are measured at purchase price less impairment allowances.

Investments in subsidiaries	31 Dec 2019	31 Dec 2018
Value at cost	1,820,441	1,811,866
Impairment allowances	0	0
Carrying amount	**1,820,441**	**1,811,866**

Changes in investments in subsidiaries	2019	2018
Balance at the beginning of the period	**1,811,866**	**1,090,004**
Increases, including:	**258,077**	**771,719**
- acquisition of investment certificates/shares*	258,077	771,719
Decreases, including:	**247,331**	**48,542**
- cancellation of investment certificates**	247,331	0
- sale of shares***	0	48,542
Foreign exchange gain/loss	-2,171	-1,315
Balance at the end of the period	**1,820,441**	**1,811,866**
* The Bank purchased investment certificates/shares (value at cost):		
– Fundusz Ekspansji Zagranicznej FIZ AN	0	184,496
– Fundusz Sektora Mieszkań dla Rozwoju FIZ AN	239,986	498,635
– Fundusz Sektora Mieszkań na Wynajem FIZ AN	18,091	65,588
– BGKN S.A. (currently PFRN S.A.)	0	23,000

** Cancellation of investment certificates of Fundusz Sektora Mieszkań na Wynajem FIZ AN.
*** On 3 October 2018, the Bank sold 100% shares in BGKN S.A. (currently PFRN S.A.) to Polski Fundusz Rozwoju S.A.

Investments in subsidiaries - change in impairment allowances	2019	2018
Balance at the beginning of the period	**0**	**0**
Recognition of impairment allowances	0	37,942
Utilisation of impairment allowances	0	37,942
Balance at the end of the period	**0**	**0**

Condensed information on subsidiaries as at 31 December 2019

Entity name	Registered office	Business profile	Assets	Liabilities	Revenue	Profit/loss	Shares held (%)	Carrying amount of shares
Fundusz Ekspansji Zagranicznej FIZ AN	Warsaw	purchasing and taking up shares in project companies	209,985	263	1,094	237	100	222,719
Fundusz Sektora Mieszkań dla Rozwoju FIZ AN	Warsaw	purchasing, taking up and disposal of shares in special purpose vehicles	704,712	2,157	4,034	-78,241	100	789,770
Fundusz Sektora Mieszkań na Wynajem FIZ AN	Warsaw	purchasing and taking up shares in special purpose vehicles	897,905	171	28,857	64,647	100	807,952
Total								**1,820,441**

Condensed information on subsidiaries as at 31 December 2018

Entity name	Registered office	Business profile	Assets	Liabilities	Revenue	Profit/loss	Shares held (%)	Carrying amount of shares
Fundusz Ekspansji Zagranicznej FIZ AN	Warsaw	purchasing and taking up shares in project companies	212,094	565	247	-12,168	100	224,890
Fundusz Sektora Mieszkań dla Rozwoju FIZ AN	Warsaw	purchasing, taking up and disposal of shares in special purpose vehicles	546,418	5,609	2,899	-8,351	100	549,784
Fundusz Sektora Mieszkań na Wynajem FIZ AN	Warsaw	purchasing and taking up shares in special purpose vehicles	1,088,757	178	25,935	26,622	100	1,037,192
Total								**1,811,866**

(in PLN thousand)

24. Investments in associates

In the financial statements all associates are measured at cost less impairment allowances.

Investments in associates	31 Dec 2019	31 Dec 2018
Value at cost	3,760,104	3,752,555
Impairment allowances	-183,041	-7,671
Carrying amount	**3,577,063**	**3,744,884**

Changes in investments in associates	2019	2018
Investments in associates at the beginning of the period	**3,744,884**	**1,008,883**
Increases, including:	**8,189**	**2,739,225**
Acquisition of investment certificates*	8,189	2,739,225
Decreases, including:	**176,010**	**3,224**
Sale of shares	640	2,500
Change in impairment allowances	175,370	724
Investments in associates at the end of the period	**3,577,063**	**3,744,884**
*The Bank purchased investment certificates/shares (value at cost) of the following entities:		
– Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZ AN	-	1,640,114
– Fundusz Inwestycji Polskich Przedsiębiorstw FIZ AN	-	821,102
– Fundusz Inwestycji Samorządowych FIZ AN	-	278,009
– Three Seas Investment Fund	8,189	x

Investments in associates - change in impairment allowances	2019	2018
Balance at the beginning of the period	**7,671**	**6,947**
Recognition of impairment allowances*	175,370	3,223
Utilisation of impairment allowances	0	2,499
Balance at the end of the period	**183,041**	**7,671**

* In 2019, the Bank recognised an impairment loss on FIPP FIZ AN of PLN 172,606 thousand following a long-term decline in the value of part of investments included in this Fund's portfolio.

In 2019 and 2018, the Bank did not receive dividends from associates.

(in PLN thousand)

Condensed information on associates as at 31 December 2019

Entity name	Current assets	Property, plant and equipment	Short-term liabilities	Long-term liabilities	Revenue	Net profit/loss	Net assets	% interest in capital	% interest in voting rights	Carrying amount
KUKE S.A.	367,570	4,101	152,332	0	100,758	6,240	219,339	36.69	36.69	63,025
Śląski Regionalny Fundusz Poręczeniowy Sp. z o.o.	44,843	62	24,061	5,446	2,338	15	9,728	46.08	46.08	3,000
Fundusz Rozwoju i Promocji Województwa Wielkopolskiego S.A.	45,632	868	307	7,500	8,481	174	36,449	22.47	22.47	3,000
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	30,933	152	45	6,500	1,793	90	19,031	44.44	44.44	2,000
Kujawsko-Pomorski Fundusz Poręczeń Kredytowych Sp. z o.o.	44,663	2,710	24	11,764	3,867	305	31,681	49.38	24.64	2,950
Dolnośląski Fundusz Gospodarczy Sp. z o.o.	25,063	20	57	0	3,141	-1,920	21,715	42.62	42.62	7,800
Opolski Regionalny Fundusz Poręczeń Kredytowych Sp. z o.o.	13,443	0	24	6,273	1,038	-1,049	5,681	48.27	33.50	2,300
Bydgoski Fundusz Poręczeń Kredytowych Sp. z o.o.	4,814	799	12	2,966	646	108	1,923	31.09	22.64	455
Samorządowy Fundusz Poręczeń Kredytowych Sp. z o.o. of Gostyń	39,463	107	41	7,000	3,622	143	21,046	41.01	41.01	6,730
Fundusz Pomerania Sp. z o.o.	21,894	9,946	94	0	4,889	7	30,409	41.15	41.15	5,000
Warmińsko-Mazurski Fundusz "Poręczenia Kredytowe" Sp. z o.o.	50,809	2,950	152	36,162	2,603	33	16,995	36.19	23.49	2,490
Małopolski Fundusz Poręczeń Kredytowych Sp. z o.o. (in liquidation)	5,185	253	3,889	0	221	216	-251	32.86	32.86	0
Krajowa Grupa Poręczeniowa Sp. z o.o.	26	366	7	0	279	-72	380	39.29	39.29	159
Świętokrzyski Fundusz Poręczeniowy Sp. z o.o.	27,272	481	20,499	0	1,562	-427	6,487	49.99	49.99	3,079
Małopolski Regionalny Fundusz Poręczeniowy Sp. z o.o.	58,753	107	33,297	0	3,244	480	14,879	36.87	36.87	4,569
Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZ AN	2,299,693	0	1,718	0	33,602	56,806	2,298,207	86.45	86,45*	1,901,988
Fundusz Inwestycji Polskich Przedsiębiorstw FIZ AN	1,185,490	0	1,136	0	37,461	-342,651	1,184,518	86.40	86,40*	1,123,394
Fundusz Inwestycji Samorządowych FIZ AN	622,267	0	450	0	6,266	9,304	622,079	50.00	50,00*	310,000
Fundusz Inwestycji Infrastrukturalnych – Dłużny FIZ AN	135,657	0	862	0	1,489	-4,255	134,863	5.89% (86.45%)**	5.89% (86.45%)**	126,935
Three Seas Investment Fund	6,668	0	1,654	0	0	-3,539	5,014	96.15	96.15	8,189
Total										**3,577,063**

* The Funds were classified as associates due to the fact that, among other things, certain decisions require a unanimous vote of the Investors' Meeting.
** Target interest, with the proviso that the Fund was classified as an associate, *inter alia* due to the fact that certain decisions require a unanimous vote of the Investors' Meeting.

(in PLN thousand)

Condensed information on associates as at 31 December 2018

Entity name	Current assets	Property, plant and equipment	Short-term liabilities	Long-term liabilities	Revenue	Net profit/loss	Net assets	% interest in capital	% interest in voting rights	Carrying amount
KUKE S.A.	335,088	3,819	125,723	0	78,383	976	213,184	36.69	36.69	63,025
Śląski Regionalny Fundusz Poręczeniowy Sp. z o.o.	59,547	80	24,061	20,230	2,697	192	9,713	46.08	46.08	3,000
Fundusz Rozwoju i Promocji Województwa Wielkopolskiego S.A.	42,835	157	646	3,755	7,531	119	36,284	22.47	22.47	3,000
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	27,542	119	39	3,250	1,424	76	18,941	44.44	44.44	2,000
Kujawsko-Pomorski Fundusz Poręczeń Kredytowych Sp. z o.o.	46,948	13	40	11,780	2,859	60	31,376	49.38	24.64	2,950
Dolnośląski Fundusz Gospodarczy Sp. z o.o.	27,688	50	32	0	2,867	51	26,491	42.62	42.62	7,800
Opolski Regionalny Fundusz Poręczeń Kredytowych Sp. z o.o.	13,204	29	32	6,630	1,057	193	6,348	48.27	33.50	2,300
Bydgoski Fundusz Poręczeń Kredytowych Sp. z o.o.	5,179	827	12	2,996	828	90	1,812	31.09	22.64	455
Fundusz Poręczeń Kredytowych Sp. z o.o in Jelenia Góra	6,556	25	7	0	715	-110	6,289	44.60	44.60	640
Samorządowy Fundusz Poręczeń Kredytowych Sp. z o.o. in Gostyń	33,257	158	102	3,500	3,180	107	19,944	41.01	41.01	6,730
Fundusz Pomerania Sp. z o.o.	30,564	1,366	170	0	3,939	22	30,826	41.15	41.15	5,000
Warmińsko-Mazurski Fundusz "Poręczenia Kredytowe" Sp. z o.o.	53,634	3,005	17	39,182	1,661	21	16,967	36.19	23.49	2,490
Małopolski Fundusz Poręczeń Kredytowych Sp. z o.o. (in liquidation)	6,020	253	4,662	0	392	-75	-466	32.86	32.86	460
Krajowa Grupa Poręczeniowa Sp. z o.o.	20	488	46	0	248	-117	457	39.29	39.29	335
Świętokrzyski Fundusz Poręczeniowy Sp. z o.o.	28,364	503	21,177	0	1,581	232	6,914	49.99	49.99	4,999
Małopolski Regionalny Fundusz Poręczeniowy Sp. z o.o.	71,591	6,182	52,298	0	2,002	-1,573	18,291	36.87	36.87	4,777
Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZ AN	856,885	0	5,685	0	15,383	46,743	2,241,401	86.45	86,45*	1,901,988
Fundusz Inwestycji Polskich Przedsiębiorstw FIZ AN	317,965	0	6,044	0	15,537	4,368	1,533,213	86.40	86,40*	1,296,000
Fundusz Inwestycji Samorządowych FIZ AN	371,440	0	1,935	0	1,490	481	612,775	50.00	50,00*	310,000
Fundusz Inwestycji Infrastrukturalnych – Dłużny FIZ AN	110,853	0	3,067	0	4,677	-2,380	139,118	5.89% (86.45%)**	5.89% (86.45%)**	126,935
Total										**3,744,884**

* The Funds were classified as associates due to the fact that, among other things, certain decisions require a unanimous vote of the Investors' Meeting.
** Target interest, with the proviso that the Fund was classified as an associate, *inter alia* due to the fact that certain decisions require a unanimous vote of the Investors' Meeting.

(in PLN thousand)

25. Intangible assets

Intangible assets	31 Dec 2019	31 Dec 2018
Licences, copyrights (including software)	33,866	34,190
Right of perpetual usufruct of land	0	3,464
Expenditure on intangible assets	21,095	11,393
Other intangible assets	1	1
Total	**54,962**	**49,048**

- Change in intangible assets from 1 January to 31 December 2019

Change in intangible assets in 2019	Licences, copyrights (including software)	Right of perpetual usufruct of land	Expenditure on intangible assets	Other intangible assets	Total
Gross carrying amount as at 31 December 2018	**124,949**	**3,664**	**24,298**	**3,280**	**156,191**
Effect of application of IFRS 16	**0**	**-3,641**	**0**	**0**	**-3,641**
Gross carrying amount as at 1 January 2019	**124,949**	**23**	**24,298**	**3,280**	**152,550**
Increases, including:	**8,012**	**0**	**18,111**	**0**	**26,123**
- purchase	0	0	18,111	0	18,111
- reclassification from expenditure	8,012	0	0	0	8,012
Decreases, including:	**0**	**23**	**8,409**	**3,245**	**11,677**
- liquidation	0	0	0	3,245	3,245
- reclassification to investment property	0	23	0	0	23
- reclassification from expenditure	0	0	8,012	0	8,012
- reclassification from expenditure on property, plant and equipment	0	0	86	0	86
- other	0	0	311	0	311
Gross carrying amount at the end of the period	**132,961**	**0**	**34,000**	**35**	**166,996**
Accumulated amortisation as at 31 December 2018	**90,759**	**200**	**0**	**3,279**	**94,238**
Effect of application of IFRS 16	**0**	**-198**	**0**	**0**	**-198**
Accumulated amortisation as at 1 January 2019	**90,759**	**2**	**0**	**3,279**	**94,040**
Increases, including:	**8,336**	**0**	**0**	**0**	**8,336**
- amortisation for the period	8,285	0	0	0	8,285
- other	51	0	0	0	51
Decreases, including:	**0**	**2**	**0**	**3,245**	**3,247**
- reclassification to investment property	0	2	0	0	2
- liquidation	0	0	0	3,245	3,245
Accumulated amortisation at the end of the period	**99,095**	**0**	**0**	**34**	**99,129**
Impairment allowances at the beginning of the period	**0**	**0**	**12,905**	**0**	**12,905**
Impairment allowances at the end of the period	**0**	**0**	**12,905**	**0**	**12,905**
Net carrying amount as at 1 January 2019	**34,190**	**21**	**11,393**	**1**	**45,605**
Net carrying amount at the end of the period	**33,866**	**0**	**21,095**	**1**	**54,962**

(in PLN thousand)

- Change in intangible assets from 1 January to 31 December 2018

Change in intangible assets in 2018	Licences, copyrights (including software)	Right of perpetual usufruct of land	Expenditure on intangible assets	Other intangible assets	Total
Gross carrying amount at the beginning of the period	**105,118**	**3,664**	**16,723**	**3,280**	**128,785**
Increases, including:	**19,925**	**0**	**27,651**	**0**	**47,576**
- purchase	0	0	27,651	0	27,651
- reclassification from expenditure	19,925	0	0	0	19,925
Decreases, including:	**94**	**0**	**20,076**	**0**	**20,170**
- liquidation	94	0	0	0	94
- reclassification from expenditure	0	0	19,925	0	19,925
- other	0	0	151	0	151
Gross carrying amount at the end of the period	**124,949**	**3,664**	**24,298**	**3,280**	**156,191**
Accumulated amortisation at the beginning of the period	**82,964**	**144**	**0**	**3,278**	**86,386**
Increases, including:	**7,890**	**56**	**0**	**1**	**7,947**
- amortisation for the period	7,830	56	0	1	7,887
- other	60	0	0	0	60
Decreases, including:	**95**	**0**	**0**	**0**	**95**
- liquidation	95	0	0	0	95
Accumulated amortisation at the end of the period	**90,759**	**200**	**0**	**3,279**	**94,238**
Impairment allowances at the beginning of the period	**0**	**0**	**0**	**0**	**0**
Increases, including:	**0**	**0**	**12,905**	**0**	**12,905**
- recognised in the period*	0	0	12,905	0	12,905
Impairment allowances at the end of the period	**0**	**0**	**12,905**	**0**	**12,905**
Net carrying amount at the beginning of the period	**22,154**	**3,520**	**16,723**	**2**	**42,399**
Net carrying amount at the end of the period	**34,190**	**3,464**	**11,393**	**1**	**49,048**

* As the Bank identified a risk that the requirements specified in the Terms of Reference may be inconsistent with the changing business needs, it decided to suspend the implementation of the Bank's key IT system, terminate the agreement with the supplier and engage an independent company to carry out a comprehensive audit of the Bank's IT architecture. As a consequence, an impairment allowance on expenditure incurred on intangible assets of PLN 12,905 thousand was recognised.

The value of intangible assets considered material for the financial statements of the Bank

The Bank holds licences/copyrights for the use of:

- the DEF system (modifications) with a value of PLN 9,103 thousand (net). The expected useful life ends on 31 December 2025;
- the bgk24 system (core system + modifications) with a net value of PLN 6,992 thousand. The expected useful life ends on 30 November 2023.

As at 31 December 2019 and 31 December 2018, the Bank did not hold any intangible assets whose legal title would be limited or which would have been provided as collateral securing the payment of liabilities.

The Bank entered into agreements to purchase in future periods the intangible assets of PLN 16,113 thousand.

26. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	31 Dec 2019	31 Dec 2018
Buildings and structures	86,158	91,947
Leasehold improvements	430	522
Plant and equipment	36,167	30,973
Vehicles	0	45
PPE under construction	8,388	13,980
Other property, plant and equipment	1,213	1,395
Total	**132,356**	**138,862**

(in PLN thousand)

- Change in property, plant and equipment from 1 January to 31 December 2019

Change in PPE in 2019	Buildings and structures	Leasehold improvements	Plant and equipment	Vehicles	PPE under construction	Other property, plant and equipment	Total
Gross carrying amount of PPE at the beginning of the period	**110,633**	**3,360**	**112,611**	**4,308**	**15,347**	**7,987**	**254,246**
Increases, including:	**0**	**149**	**16,939**	**0**	**10,303**	**207**	**27,598**
- purchase	0	0	0	0	10,303	0	10,303
- reclassification from expenditure	0	149	15,408	0	0	167	15,724
- reclassification from expenditure on intangible assets	0	0	86	0	0	0	86
- other	0	0	1,445	0	0	40	1,485
Decreases, including:	**3,039**	**1,182**	**4,715**	**4,220**	**15,895**	**1,636**	**30,687**
- sale	0	0	30	4,220	0	131	4,381
- liquidation	0	1,071	2,391	0	0	66	3,528
- reclassification from expenditure	0	0	0	0	15,724	0	15,724
- reclassification to investment property	3,039	0	0	0	0	0	3,039
- other	0	111	2,294	0	171	1,439	4,015
Gross carrying amount of PPE at the end of the period	**107,594**	**2,327**	**124,835**	**88**	**9,755**	**6,558**	**251,157**
Accumulated depreciation at the beginning of the period	**18,686**	**2,838**	**81,638**	**4,263**	**0**	**6,592**	**114,017**
Increases, including:	**3,327**	**223**	**11,736**	**45**	**0**	**368**	**15,699**
- depreciation for the period	3,223	215	10,029	8	0	364	13,839
- other	104	8	1,707	37	0	4	1,860
Decreases, including:	**577**	**1,164**	**4,706**	**4,220**	**0**	**1,615**	**12,282**
- sale	0	0	27	4,220	0	131	4,378
- liquidation	0	1,068	2,391	0	0	66	3,525
- reclassification to investment property	577	0	0	0	0	0	577
- other	0	96	2,288	0	0	1,418	3,802
Accumulated depreciation at the end of the period	**21,436**	**1,897**	**88,668**	**88**	**0**	**5,345**	**117,434**
Impairment allowances at the beginning of the period	**0**	**0**	**0**	**0**	**1,367**	**0**	**1,367**
Impairment allowances at the end of the period	**0**	**0**	**0**	**0**	**1,367**	**0**	**1,367**
Net carrying amount at the beginning of the period	**91,947**	**522**	**30,973**	**45**	**13,980**	**1,395**	**138,862**
Net carrying amount at the end of the period	**86,158**	**430**	**36,167**	**0**	**8,388**	**1,213**	**132,356**

(in PLN thousand)

- Change in property, plant and equipment from 1 January to 31 December 2018

Change in PPE in 2018	Buildings and structures	Leasehold improvements	Plant and equipment	Vehicles	PPE under construction	Other property, plant and equipment	Total
Gross carrying amount of PPE at the beginning of the period	**108,076**	**3,446**	**104,115**	**4,305**	**17,070**	**8,609**	**245,621**
Increases, including:	**2,557**	**61**	**9,222**	**43**	**10,910**	**687**	**23,480**
- purchase	0	0	0	0	10,910	0	10,910
- reclassification from expenditure	2,557	61	9,222	0	0	687	12,527
- other	0	0	0	43	0	0	43
Decreases, including:	**0**	**147**	**726**	**40**	**12,633**	**1,309**	**14,855**
- sale	0	18	5	40	0	0	63
- liquidation	0	129	721	0	0	1,309	2,159
- reclassification from expenditure	0	0	0	0	12,523	0	12,523
- other	0	0	0	0	110	0	110
Gross carrying amount of PPE at the end of the period	**110,633**	**3,360**	**112,611**	**4,308**	**15,347**	**7,987**	**254,246**
Accumulated depreciation at the beginning of the period	**15,451**	**2,727**	**74,079**	**3,097**	**0**	**7,318**	**102,672**
Increases, including:	**3,235**	**253**	**8,281**	**1,206**	**0**	**569**	**13,544**
- depreciation for the period	3,148	244	7,910	1,016	0	557	12,875
- other	87	9	371	190	0	12	669
Decreases, including:	**0**	**142**	**722**	**40**	**0**	**1,295**	**2,199**
- sale	0	13	5	40	0	0	58
- liquidation	0	129	717	0	0	1,295	2,141
Accumulated depreciation at the end of the period	**18,686**	**2,838**	**81,638**	**4,263**	**0**	**6,592**	**114,017**
Impairment allowances at the beginning of the period	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Increases, including:	**0**	**0**	**0**	**0**	**1,367**	**0**	**1,367**
- recognised in the period*	0	0	0	0	1,367	0	1,367
Impairment allowances at the end of the period	**0**	**0**	**0**	**0**	**1,367**	**0**	**1,367**
Net carrying amount at the beginning of the period	**92,625**	**719**	**30,036**	**1,208**	**17,070**	**1,291**	**142,949**
Net carrying amount at the end of the period	**91,947**	**522**	**30,973**	**45**	**13,980**	**1,395**	**138,862**

* As the Bank identified a risk that the requirements specified in the Terms of Reference may be inconsistent with the changing business needs, it decided to suspend the implementation of the Bank's key IT system, terminate the agreement with the supplier and engage an independent company to carry out a comprehensive audit of the Bank's IT architecture. As a consequence, an impairment allowance on expenditure incurred on property, plant and equipment of PLN 1,367 thousand was recognised.

As at 31 December 2019 and 31 December 2018, the Bank did not have any property or equipment whose legal title would be limited or which would have been provided as collateral securing the payment of liabilities.

The Bank signed agreements on future purchase of property, plant and equipment worth PLN 1,288 thousand.

27. Right-of-use assets

Right-of-use assets	31 Dec 2019	31 Dec 2018
Buildings and structures	24,223	x
Right of perpetual usufruct of land	10,612	x
Vehicles	7,077	x
Other assets	3,931	x
Total	**45,843**	**x**

(in PLN thousand)

Change in right-of-use assets in 2019	Buildings and structures	Right of perpetual usufruct of land	Plant and equipment	Vehicles	Total
Gross carrying amount of right-of-use assets as at 31 December 2018	x	x	x	x	x
Effect of application of IFRS 16*	**27,368**	**10,899**	**0**	**5,546**	**43,813**
Gross carrying amount of right-of-use assets as at 1 January 2019	**27,368**	**10,899**	**0**	**5,546**	**43,813**
Increases, including:	**8,128**	**389**	**7,697**	**477**	**16,691**
- purchase (new agreements)	7,873	0	7,048	477	15,398
- indexation	255	0	0	0	255
- other	0	389	649	0	1,038
Decreases, including:	**0**	**518**	**0**	**0**	**518**
- sale	0	0	0	0	0
- lease termination	0	0	0	0	0
- other	0	518	0	0	518
Gross carrying amount of right-of-use assets at the end of the period	**35,496**	**10,770**	**7,697**	**6,023**	**59,986**
Accumulated depreciation as at 31 December 2018	x	x	x	x	x
Effect of application of IFRS 16	**0**	**0**	**0**	**0**	**0**
Accumulated depreciation as at 1 January 2019	**0**	**0**	**0**	**0**	**0**
Increases, including:	**11,273**	**164**	**620**	**2,092**	**14,149**
- depreciation for the period	10,314	164	611	2,054	13,143
- other	959	0	9	38	1,006
Decreases, including:	**0**	**6**	**0**	**0**	**6**
- sale	0	0	0	0	0
- lease termination	0	0	0	0	0
- other	0	6	0	0	6
Accumulated depreciation at the end of the period	**11,273**	**158**	**620**	**2,092**	**14,143**
Net carrying amount as at 1 January 2019	**27,368**	**10,899**	**0**	**5,546**	**43,813**
Net carrying amount at the end of the period	**24,223**	**10,612**	**7,077**	**3,931**	**45,843**

* The effect of application of IFRS 16 as at 1 January 2019 is presented in Note 2.2 and 2.5.11.

28. INVESTMENT PROPERTY

Change in investment property

Investment property	2019	2018
Carrying amount at the beginning of the period	**13,104**	**14,294**
Increases, including:	**2,647**	**1,322**
- fair value measurement	164	1,322
- reclassification from property, plant and equipment and intangible assets	2,483	0
Decreases, including:	**2,210**	**2,512**
- fair value measurement	0	2,512
- other (transfer free of charge)	2,210	0
Carrying amount at the end of the period	**13,541**	**13,104**

The Bank adopted the fair value measurement model for investment property. The fair value of investment property is classified at Level 3 of the fair value measurement hierarchy.

The fair value of property investments is recognised in the valuation prepared by independent property appraisers.

The valuations were carried out based on a comparative method (pairwise comparison) and an income method (by investment).

The best indicator of fair value is the applicable prices on an active market for similar assets. If no such information is available, the fair value is estimated. Various information are taken into account (including unobservable inputs) to carry out the valuation, including:

- the market price for property (transactions) of a similar nature, condition, and location (or provided for in a different agreement or contract), adjusted to consider the difference between the properties;
- discounted cash flow projections based on reliable estimations of future cash flows specified in the terms and conditions of present lease agreements and other contracts or in external sources, such as current market rental prices of similar property in the same location and condition, rental price growth rate, the time where flats are not inhabited, along with occupancy rate.

(in PLN thousand)

Fair value measurement was recognised in profit or loss as “Other operating expenses” and “Other operating income”.

The following items of revenue and expenses related to investment property were recognised in profit or loss:

	2019	2018
Rental income from investment property	67	71
Direct operating expenses (including the cost of repair and maintenance) related to property, which generated rental income in the period	711	747
Direct operating expenses (including the cost of repair and maintenance) related to property, which did not generate any rental income in the period	106	286

The Bank entered into contracts for repair, maintenance or improvement of investment property in subsequent periods with a value of PLN 146 thousand.

29. Other assets

Other assets	31 Dec 2019	31 Dec 2018
Accrued income, including:	19,254	17,971
- fees for asset management as part of European Union Perspective 2014–2020	14,182	13,597
Sundry debtors	62,320	23,489
Public law settlements	260	278
Payment card settlements	4,806	1,339
Pre-paid costs, including:	9,957	7,105
- costs of telecommunication services	7,309	4,776
- costs of commissions on guarantees received	923	1,129
Total other assets (gross)	**96,597**	**50,182**
- impairment losses	5,110	4,908
Total other assets (net)	**91,487**	**45,274**
including financial assets (net)*	81,270	37,891

* Financial assets include: accrued revenue, sundry debtors and payment card settlements

Change in impairment allowances on other assets	2019	2018
Impairment allowances on other assets at the beginning of the period	**4,908**	**5,302**
Effect of application of IFRS 9	x	**101**
Adjusted opening balance in accordance with IFRS 9	**4,908**	**5,403**
Recognition	434	266
Reversal	153	219
Utilisation	80	805
Other changes	1	263
Impairment allowances on other assets at the end of the period	**5,110**	**4,908**

30. Amounts due to banks

Amounts due to banks	31 Dec 2019	31 Dec 2018
Current accounts	90,228	281,356
Bank deposits	531,004	468,242
Loans and advances received*	3,202,153	2,901,469
Other	296,261	228,154
Total	**4,119,646**	**3,879,221**

* Including received from:		
European Investment Bank	2,691,017	2,278,941
Council of Europe Development Bank	207,079	253,875
KfW (Kreditanstalt für Wiederaufbau)	304,057	368,653

(in PLN thousand)

31. Liabilities to customers

Liabilities to customers	31 Dec 2019	31 Dec 2018
Liabilities to financial sector	**5,847,754**	**2,463,462**
Current accounts and O/N deposits	740,002	977,968
Term deposits	5,102,761	1,478,587
Other liabilities	4,991	6,907
Liabilities to non-financial sector	**22,754,535**	**15,819,300**
Current accounts and O/N deposits	6,275,768	3,491,382
Term deposits	15,368,421	11,215,533
Other liabilities	1,110,346	1,112,385
Liabilities to the public sector	**31,218,973**	**29,486,496**
Current accounts and O/N deposits	27,159,555	21,958,997
Term deposits	3,941,600	7,362,290
Other liabilities	117,818	165,209
Total	**59,821,262**	**47,769,258**

32. Debt securities issued

Issue date	Nominal value	Currency	Maturity date	Interest rate	Carrying amount as at 31 Dec 2019
28 Oct 2019	1,850,000	PLN	28 Oct 2023	6M WIBOR + margin	1,857,215
19 Feb 2019	2,000,000	PLN	19 Feb 2023	6M WIBOR + margin	2,016,560
25 Jan 2018	500,000	PLN	25 Jan 2021	6M WIBOR + margin	504,450
3 Oct 2017	500,000	PLN	3 Oct 2021	6M WIBOR + margin	502,725
19 May 2017	1,200,000	PLN	19 May 2020	6M WIBOR + margin	1,203,144
27 Feb 2017	1,158,600	PLN	27 Feb 2020	6M WIBOR + margin	1,167,429
Total	**7,208,600**				**7,251,523**

Issue date	Nominal value	Currency	Maturity date	Interest rate	Carrying amount as at 31 Dec 2018
25 Jan 2018	500,000	PLN	25 Jan 2021	6M WIBOR + margin	504,425
3 Oct 2017	500,000	PLN	3 Oct 2021	6M WIBOR + margin	502,725
19 May 2017	1,200,000	PLN	19 May 2020	6M WIBOR + margin	1,203,144
27 Feb 2017	1,158,600	PLN	27 Feb 2020	6M WIBOR + margin	1,167,429
5 Oct 2016	500,000	PLN	5 Oct 2019	6M WIBOR + margin	502,630
19 Feb 2015	1,392,000	PLN	19 Feb 2019	6M WIBOR + margin	1,402,718
30 Sep 2014	500,000	PLN	30 Sep 2019	fixed	503,565
Total	**5,750,600**				**5,786,636**

33. Other liabilities

Other liabilities	31 Dec 2019	31 Dec 2018
Deferred costs	13,629	14,023
Deferred income	98,803	84,521
Provisions for annual holidays	8,817	8,456
Personnel costs – annual and jubilee awards, payments in lieu of leave, bonuses	73,820	62,363
Other liabilities (by basis):	**251,779**	**794,871**
- interbank settlements	32,538	35,758
- settlements with funds and programmes	106,973	181,010
- liabilities to suppliers of works and services	11,384	9,786
- employee settlements	212	237
- fuel charge liabilities	0	518,234
- payment card liabilities	985	55
- other	99,687	49,791
Total	**446,848**	**964,234**

As at 31 December 2019 and 31 December 2018, the Bank had no delinquent contractual liabilities under concluded agreements.

(in PLN thousand)

34. PROVISIONS

Provisions	31 Dec 2019	31 Dec 2018
Provisions for financial and guarantee liabilities granted	344,311	211,684
Provisions for litigation and legal claims	80,351	79,869
Provisions for defined benefit plans	17,128	13,320
Other provisions *	0	93,328
Total provisions	**441,790**	**398,201**

* Provision for off-balance-sheet liabilities of liquidated KFM (NHF – National Housing Fund)

Provisions for the year ending on 31 December 2019	Provisions for financial and guarantee liabilities granted	Provisions for litigation and legal claims	Provisions for defined benefit plans	Other provisions	Total
Balance at the beginning of the period	**211,684**	**79,869**	**13,320**	**93,328**	**398,201**
Recognition	395,112	482	1,812	0	**397,406**
Reversal	262,485	0	0	93,328	**355,813**
Utilisation	0	0	1,024	0	**1,024**
Other changes and reclassifications	0	0	3,020	0	**3,020**
Balance at the end of the period	**344,311**	**80,351**	**17,128**	**0**	**441,790**
Short-term provision	55,466	0	3,669	0	**59,135**
Long-term provision	288,845	80,351	13,459	0	**382,655**

Provisions for the year ending on 31 December 2018	Provisions for financial and guarantee liabilities granted	Provisions for litigation and legal claims	Provisions for defined benefit plans	Other provisions	Total
Balance as at 31 December 2017	**170,799**	**11,994**	**13,501**	**93,328**	**289,622**
Effect of application of IFRS 9	**-8,655**	**0**	**0**	**0**	**-8,655**
Balance as at 1 January 2018	**162,144**	**11,994**	**13,501**	**93,328**	**280,967**
Recognition	331,684	67,875	193	0	**399,752**
Reversal	282,144	0	0	0	**282,144**
Utilisation	0	0	374	0	**374**
Balance at the end of the period	**211,684**	**79,869**	**13,320**	**93,328**	**398,201**
Short-term provision	24,509	0	3,590	0	**28,099**
Long-term provision	187,175	79,869	9,730	93,328	**370,102**

Provisions for financial and guarantee liabilities granted

The tables below present financial and guarantee liabilities granted, together with relevant provisions, by stage, in accordance with IFRS 9

	Stage 1	Stage 2	Stage 3	Total
Financial and guarantee liabilities granted				
Financial liabilities granted	49,317,488	255,026	116,697	49,689,211
Guarantee liabilities granted	14,518,420	311,962	408,900	15,239,282
As at 31 December 2019	**63,835,908**	**566,988**	**525,597**	**64,928,493**
Provision for financial and guarantee liabilities granted				
Provision for financial liabilities granted	52,156	1,853	47,024	101,033
Provision for guarantee liabilities granted	97,178	6,273	139,827	243,278
As at 31 December 2019	**149,334**	**8,126**	**186,851**	**344,311**

	Stage 1	Stage 2	Stage 3	Total
Financial and guarantee liabilities granted				
Financial liabilities granted	39,597,007	360,521	193,947	40,151,475
Guarantee liabilities granted	13,052,661	441,237	1,146,510	14,640,408
As at 31 December 2018	**52,649,668**	**801,758**	**1,340,457**	**54,791,883**
Provision for financial and guarantee liabilities granted				
Provision for financial liabilities granted	52,693	2,814	37,132	92,639
Provision for guarantee liabilities granted	87,060	9,871	22,114	119,045
As at 31 December 2018	**139,753**	**12,685**	**59,246**	**211,684**

(in PLN thousand)

Provisions for litigation and legal claims

In 2018, the Bank recognised a PLN 67,231 thousand provision for operational risk related to the distribution of funds as part of Regional Operational Programmes for 2014-2020 in connection with irregularities in performance of agreements with one of financial intermediaries and reported a suspected crime related to the case to the prosecutor's office.

In 2019, following the takeover of operational agreements from the financial intermediary the Bank launched the procedure to seek claims under loans advanced as part of individual operational agreements. The prosecution and court proceedings are pending. The activities in this area will be continued in 2020.

Provisions for defined benefit plans

Provisions for defined benefit plans include: retirement, disability and post-mortem benefits. Provisions are estimated based on actuarial valuation using the discount rate: market yield of 10-year T-bonds of 2.0% and 3.0% assumed at the end of 2019 and at the end of 2018, respectively. The long-term annual nominal salary growth rate of 2.0% has been assumed for calculation purposes. The provision for actuarial valuation is recognised and revalued annually.

Reconciliation of the present value of liabilities due to defined benefit plans.

The table below presents the change in the present value of liabilities due to defined benefit plans.

Liabilities due to defined benefit plans	2019	2018
Balance at the beginning of the period	**13,320**	**13,501**
Current employment costs	1,490	1,025
Interest expense	322	280
Actuarial profits/losses:	3,020	777
- actuarial gains/losses arising from changes in financial assumptions	1,117	0
- actuarial gains/losses arising from ex-post adjustments of actuarial assumptions	1,903	777
Benefits paid	-1,024	-2,263
Balance at the end of the period	**17,128**	**13,320**

Employment costs comprise:
- present employment costs: an increase in the present value of liabilities due to defined benefit plans resulting from work carried out by employees in the current period;
- costs of former employment: a change in the present value of the liability due to defined benefits for work carried out by employees in the past and appearing in the present period as a result of change of the plan (introduction, cancellation or change of the conditions of defined benefit plan) or limitation of said plan (a significant decrease by the unit of the number of employees subject to the plan);
- any and all gains or losses resulting from settlement.

Sensitivity analysis

The impact of 1 p.p. changes in actuarial valuations on liabilities due to defined benefit plans is presented below.

Liabilities due to defined benefit plans	31 Dec 2019		31 Dec 2018	
Increase/decrease in value	**+1%**	**-1%**	**+1%**	**-1%**
Discount rate	-1,117	1,292	-790	916
Payroll growth rate	1,279	-1,127	916	-805

Maturity of liabilities due to defined benefit plans

Maturity of liabilities due to defined benefit plans is presented in the table below.

	31 Dec 2019	31 Dec 2018
Weighted average period of liabilities due to defined benefit plans (years)	7.31	7.11

Other provisions

In line with the Act of 2 April 2009 amending the Act on Sureties and Guarantees Granted by the State Treasury and Certain Legal Persons, the Act on Bank Gospodarstwa Krajowego and Certain Other Acts (Journal of Laws, No. 65, item 545), the National Housing Fund was liquidated as of 31 May 2009 and its net assets, whose value was determined based on the data from the financial statements drawn up at the liquidation date, increased the statutory capital of Bank Gospodarstwa Krajowego.

Consequently, the Bank recognised a provision for liabilities resulting from the submitted initial customers' applications, in response to which the applicants received BGK's decision approving the eligibility of the applications for further procedure to obtain a loan for an investment and construction project, but until the date of the liquidation of NHF did not yet receive a credit decision granting a promise neither notified the Bank of their resignation from applying for a loan.

At present, all initial applications, as described above, for NHF loans have been converted into loan agreements, now held in the Bank's portfolio or were withdrawn by customers or expired, and as a result the remaining provision was released.

35. EQUITY

Statutory capital

The statutory capital of the Bank is created in accordance with the Articles of Association and the Act on Bank Gospodarstwa Krajowego and is supplied from:

- cash and other assets contributed by the State Treasury, including treasury securities provided by the minister competent for public finance;
- annual appropriations of the Bank's net profit in the amount of at least 10% of the profit.

Under the Act on Supporting Scientific Activities from the Polish Science Fund of 4 April 2019 (Journal of Laws of 2019, item 823, as amended), in June 2019 BGK established the Polish Science Fund ("PSF") operating as a flow fund. Based on said Act, BGK injected into the PSF a total of PLN 500 million. The amount decreased the Bank's statutory capital. In 2019, the Bank transferred PLN 44,535 thousand to its statutory capital from distributed profit for 2018.

Based on the Act of 24 November 2017 amending the Act on Sureties and Guarantees Granted by the State Treasury and Certain Legal Entities as well as Certain Legal Acts (Journal of Laws of 2017, item 2433), in January 2018 the Bank established the National Guarantee Fund ("NGF") – a flow fund. Based on said Act, BGK injected into the NGF a total of PLN 900 million. The amount decreased the Bank's statutory capital.
In 2018, the Bank transferred PLN 51,781 thousand to its statutory capital from distributed profit for 2017.

Supplementary capital

Supplementary capital is recognised in line with the Articles of Association of the Bank and is used to cover its balance sheet losses.
In 2019, the Bank transferred PLN 92,755 thousand to its supplementary capital from distributed profit for 2018, while in 2018 supplementary capital was increased by PLN 361,429 thousand from distributed profit for 2017.

Revaluation reserve

Revaluation reserve comprises: the effects of measurement of financial assets at fair value through other comprehensive income, effects of revaluation of property, plant and equipment and property upon their reclassification to investment property, actuarial gains and losses and the related deferred tax.

Other capital reserves

Other capital reserves comprise appropriations of net profit and are used for purposes specified in the Articles of Association or other provisions of law applicable to the Bank.
They also include the reserve for general banking risk established for unidentified risks arising from banking activity, which in line with the Bank's Articles of Association, is established from appropriations of the annual net profit of the Bank.

Detailed information on payments from capital to the State budget is presented in Note 14.

(in PLN thousand)

OTHER NOTES

36. CONTINGENT LIABILITIES AND OFF-BALANCE-SHEET LIABILITIES GRANTED AND RECEIVED

36.1. OFF-BALANCE-SHEET LIABILITIES GRANTED

Financial liabilities granted	31 Dec 2019	31 Dec 2018
Credit lines and limits		
- to financial institutions	2,075,136	1,600,282
- to non-financial institutions	9,278,570	7,806,727
- to public sector entities	38,335,505	30,744,466
Total	**49,689,211**	**40,151,475**

Guarantee liabilities granted	31 Dec 2019	31 Dec 2018
Guarantees and sureties	**15,157,334**	**14,625,948**
- to financial institutions	605,905	876,146
- to non-financial institutions	14,369,435	13,293,663
- to public sector entities	181,994	456,139
Letters of credit granted	**81,948**	**14,460**
- to financial institutions	81,948	14,460
Total	**15,239,282**	**14,640,408**

36.2. OFF-BALANCE-SHEET LIABILITIES RECEIVED

At nominal value	31 Dec 2019	31 Dec 2018
Financial	11,378,556	14,632,300
Guarantee	28,270,025	26,805,684
Total	**39,648,581**	**41,437,984**

Right to sell or pledge a collateral established for the Bank

As at 31 December 2019 and 31 December 2018, the Bank held no collaterals which could be sold or pledged if the collateral owner met all of its obligations.

36.3. SECURITIES UNDERWRITING (MAXIMUM UNDERWRITING AMOUNT COMMITTED BY THE BANK)

Issuer of securities underwritten as at 31 December 2019	Type of underwritten securities	Maximum underwriting amount committed by the Bank	Guarantee term	Transferability
Client 1	municipal bonds	6,800	15 Dec 2020	transferable
Client 1	municipal bonds	5,000	15 Dec 2021	transferable
Client 3	municipal bonds	9,000	20 Dec 2020	transferable
Client 4	municipal bonds	50,000	31 Dec 2020	transferable
Client 5	commercial bonds	25,000	31 Jul 2021	non-transferable
Client 6	commercial bonds	30,000	30 Dec 2020	non-transferable
Client 6	commercial bonds	114,750	30 Dec 2020	non-transferable
Client 7	municipal bonds	2,360	31 Dec 2020	transferable
Client 8	commercial bonds	45,000	4 Jan 2020	non-transferable
Client 9	municipal bonds	2,000	5 Dec 2020	transferable
Client 10	municipal bonds	10,250	31 Dec 2020	transferable
Client 11	commercial bonds	22,060	15 Dec 2022	non-transferable
Client 18	municipal bonds	2,500	31 Dec 2020	transferable
Client 20	municipal bonds	15,510	31 Dec 2020	transferable
Client 24	municipal bonds	800	31 Dec 2020	transferable
Client 26	municipal bonds	46,300	10 Dec 2020	transferable
Client 27	municipal bonds	4,100	31 Dec 2020	transferable
Client 30	municipal bonds	3,500	31 Dec 2020	transferable
Client 33	municipal bonds	4,400	31 Dec 2020	transferable
Client 35	commercial bonds	22,714	31 Mar 2020	non-transferable
Client 54	commercial bonds	93,510	31 Mar 2022	non-transferable
Client 54	commercial bonds	9,580	31 Mar 2020	non-transferable
Client 55	commercial bonds	3,600	31 Dec 2020	non-transferable
Total		**528,734**		

(in PLN thousand)

Issuer of securities underwritten as at 31 December 2018	Type of underwritten securities	Maximum underwriting amount committed by the Bank	Guarantee term	Transferability
Client 2	commercial bonds	104,738	30 Sep 2019	non-transferable
Client 3	commercial bonds	1,000,000	30 Sep 2020	transferable
Client 4	commercial bonds	2,000	31 Dec 2019	non-transferable
Client 5	commercial bonds	25,000	31 Jul 2021	non-transferable
Client 6	commercial bonds	134,200	30 Dec 2020	non-transferable
Client 6	commercial bonds	30,000	30 Dec 2020	non-transferable
Client 8	commercial bonds	255,000	4 Jan 2020	non-transferable
Client 9	commercial bonds	19,750	30 Jun 2019	non-transferable
Client 10	commercial bonds	5,403	31 Dec 2019	non-transferable
Client 10	commercial bonds	4,000	30 Jun 2019	non-transferable
Client 11	commercial bonds	3,426	31 Aug 2019	non-transferable
Client 12	municipal bonds	13,000	31 Dec 2018	transferable
Client 13	commercial bonds	400,000	30 Jun 2019	non-transferable
Client 14	municipal bonds	50,000	31 Dec 2019	transferable
Client 14	municipal bonds	50,000	31 Dec 2020	transferable
Client 15	municipal bonds	3,000	28 Dec 2018	transferable
Client 17	municipal bonds	6,000	31 Dec 2018	transferable
Client 18	municipal bonds	5,000	31 Dec 2019	transferable
Client 18	municipal bonds	2,500	31 Dec 2020	transferable
Client 20	municipal bonds	8,440	31 Dec 2018	transferable
Client 20	municipal bonds	15,695	31 Dec 2019	transferable
Client 20	municipal bonds	1,875	31 Dec 2020	transferable
Client 21	commercial bonds	2,850	30 Jun 2019	non-transferable
Client 22	municipal bonds	2,820	31 Dec 2018	transferable
Client 24	municipal bonds	4,557	31 Dec 2019	transferable
Client 25	municipal bonds	14,000	31 Dec 2018	transferable
Client 26	municipal bonds	39,300	31 Dec 2019	transferable
Client 26	municipal bonds	10,700	31 Dec 2020	transferable
Client 27	municipal bonds	2,000	31 Dec 2019	transferable
Client 30	municipal bonds	6,300	31 Dec 2019	transferable
Client 30	municipal bonds	3,500	31 Dec 2020	transferable
Client 31	municipal bonds	5,000	31 Dec 2018	transferable
Client 32	municipal bonds	4,000	31 Dec 2018	transferable
Client 33	municipal bonds	8,200	31 Dec 2019	transferable
Client 33	municipal bonds	4,400	31 Dec 2020	transferable
Client 34	municipal bonds	3,500	31 Dec 2018	transferable
Client 34	municipal bonds	1,500	31 Dec 2019	transferable
Client 35	commercial bonds	21,750	31 Mar 2020	non-transferable
Client 36	municipal bonds	3,000	31 Dec 2019	transferable
Client 40	municipal bonds	11,900	31 Dec 2018	transferable
Client 41	municipal bonds	3,680	31 Dec 2019	transferable
Client 41	municipal bonds	2,000	31 Dec 2020	transferable
Client 44	municipal bonds	1,000	31 Dec 2018	transferable
Client 45	municipal bonds	20,000	31 Dec 2018	transferable
Client 46	municipal bonds	7,325	31 Dec 2018	transferable
Client 49	municipal bonds	5,000	31 Dec 2018	transferable
Client 51	municipal bonds	5,500	31 Dec 2018	transferable
Client 53	commercial bonds	4,910	31 Dec 2019	non-transferable
Client 54	commercial bonds	104,510	31 Mar 2022	non-transferable
Client 55	commercial bonds	4,040	31 Dec 2020	non-transferable
Total		**2,446,269**		

37. Additional information to the statement of cash flows

Cash and cash equivalents include cash in hand and in the nostro account at the National Bank of Poland as well as cash in the current accounts in banks and other cash with a maturity period of up to 3 months.

Cash recognised in the statement of cash flows	31 Dec 2019	31 Dec 2018
Cash in hand	0	609
Cash in Central Bank	22,729,376	16,668,286
Cash in other banks	6,309,111	6,975,209
Total	**29,038,487**	**23,644,104**

(in PLN thousand)

Difference between changes in individual items of the statement of financial position and the corresponding changes presented in the statement of cash flows	31 Dec 2019	31 Dec 2018
Interest and dividends	**163,490**	**162,932**
a) interest:	**200,448**	**180,332**
- interest expense on loans and advances received	57,767	51,969
- interest expense on debt securities in issue	141,797	128,363
- interest expense on lease liabilities	884	x
b) dividends:	**-36,958**	**-17,400**
- PZU S.A.	-4,319	-3,857
- European Investment Fund	-50	-52
- VISA International	-21	-23
- PKO BP S.A.	-32,568	-13,468
Change in amounts due from banks	**392,264**	**85,859**
a) changes in the statement of financial position	1,058,362	-4,814,680
b) effect of application of IFRS 9	0	-538
c) assets included in change in cash	-666,098	4,901,077
Change in financial assets held for trading	**402,907**	**362,590**
a) changes in the statement of financial position	402,907	362,590
Change in loans and advances to customers	**-4,957,283**	**1,311,479**
a) changes in the statement of financial position	-4,957,283	1,304,087
b) effect of application of IFRS 9	0	7,392
Change in financial assets at fair value through profit or loss	**-81,057**	**-621,224**
a) changes in the statement of financial position	-81,057	-609,908
b) effect of application of IFRS 9	0	-11,316
Change in financial assets at fair value through other comprehensive income	**-4,356,212**	**-15,952,927**
a) changes in the statement of financial position	-4,238,123	-15,834,203
b) equity instruments recognised in investment activities	0	-46,962
c) measurement recognised in revaluation reserve	-118,089	-71,762
Change in debt instruments at amortised cost	**-516,164**	**-6,867,238**
a) changes in the statement of financial position	-516,164	-6,881,770
b) effect of application of IFRS 9	0	14,532
Change in reverse repurchase agreements	**-1,426,877**	**-1,769,120**
a) changes in the statement of financial position	-1,426,877	-1,769,120
Change in available-for-sale financial assets	**0**	**37,028,623**
a) changes in the statement of financial position	0	37,028,623
Change in other assets	**-46,213**	**-5,756**
a) changes in the statement of financial position	-46,213	-5,654
b) effect of application of IFRS 9	0	-102
Change in amounts due to banks	**-60,257**	**374,499**
a) changes in the statement of financial position	240,425	285,081
b) loans included in financing activities	-300,682	89,418
Change in financial liabilities held for trading	**-965,665**	**292,377**
a) changes in the statement of financial position	-965,666	292,377
Change in liabilities to customers	**12,052,004**	**13,961,242**
a) changes in the statement of financial position	12,052,004	13,961,242
Change in liabilities due to repurchase agreements	**3,899,337**	**-2,359,769**
a) changes in the statement of financial position	3,899,337	-2,359,769
Changes in liabilities due to securities issued	**0**	**0**
a) changes in the statement of financial position	1,464,887	-505,738
b) issues included in financing activities	-1,464,887	505,738
Change in provisions	**40,569**	**116,386**
a) changes in the statement of financial position	43,589	108,579
b) effect of application of IFRS 9	0	8,655
c) adjustment of measurement of NHF liabilities recognised in BGK's statutory capital	0	0
d) remeasurement of defined benefit plan liabilities	-3,020	-848
Change in other liabilities	**-1,017,819**	**-1,309,854**
a) changes in the statement of financial position	-517,386	-409,542
b) appropriation of profit to the IWF	-433	-312
c) establishment of the NGF	0	-900,000
d) establishment of the PSF	-500,000	0
Other adjustments	**1,878**	**856**
a) transfer of PPE and intangible assets to commissioned activities (cash flow funds)	1,878	856

(in PLN thousand)

38. Transactions with the Treasury and government related entities

38.1. Transactions with the State Treasury

BGK is a state bank with the State Treasury as the sole shareholder.

The statement of financial position of the Bank presents receivables and liabilities from transactions with the Treasury, the public sector and government related entities, with the Treasury as the shareholder. In connection with the executed transactions the Bank receives interest and commission income and incurs interest and commission expense.

Transactions of BGK with the State Treasury	31 Dec 2019			2019	
Entity	Receivables	Liabilities	Financial and guarantee liabilities granted	Interest and commission income	Interest and commission expense
Entity 1 – the State Treasury	12,077,542	16,778,935	37,504,000	320,219	372,009
Other State Treasury entities	0	6,364	0	24	0

Transactions of BGK with the State Treasury	31 Dec 2018			2018	
Entity	Receivables	Liabilities	Financial and guarantee liabilities granted	Interest and commission income	Interest and commission expense
Entity 1 – the State Treasury	11,035,032	17,060,838	30,007,000	310,773	418,454
Other State Treasury entities	0	79,276	0	41	71

38.2. Material transactions with entities associated with the State Treasury

The table below presents the Bank's exposure and amounts of liabilities to entities associated with the State Treasury with the highest total exposure.

(in PLN thousand)

BGK's significant transactions with entities associated with the State Treasury

Entity	31 Dec 2019			2019		
	Receivables	Liabilities	Financial and guarantee liabilities granted	Interest income	Commission income	Interest expense
Entity 1	851,858	4,449,443	0	19,368	1,644	237
Entity 2	2,009,117	34,714	1,471,031	76,204	5,382	235
Entity 3	1,416,594	1,679,902	0	42,316	334	0
Entity 4	2,850,570	5	171,176	90,648	974	0
Entity 5	300,079	300,887	2,305,582	2,084	7,483	2
Entity 6	1,955,971	0	744,897	50,694	920	72
Entity 7	28,319	285,920	1,743,121	85	10,833	1,715
Entity 8	1,290,035	250,127	60,000	38,132	16	48
Entity 9	0	1,106,768	0	0	1	0
Entity 10	430,939	121	613,359	8,462	1,534	0
Entity 11	133,369	330,007	250,000	3,554	78	0
Entity 12	0	697,401	0	0	3	0
Entity 13	255,000	267,943	103,001	7,117	1,078	0
Entity 14	0	0	578,596	0	1,288	0
Entity 15	0	50,103	409,937	157	500	0
Entity 16	69,823	208,014	150,147	499	376	9
Entity 17	0	401,881	0	0	2	247
Entity 18	235,301	164,432	0	8,493	5	2
Entity 19	0	344,310	10	0	1,421	4,520
Entity 20	40,987	0	207,781	199	2,817	0
Entity 21	0	201,563	0	0	1	1
Entity 22	0	197,732	0	0	1	0
Entity 23	0	190,863	0	0	103	0
Entity 24	0	182,738	0	0	3	379
Entity 25	0	78,194	85,000	0	46	0
Entity 26	68,137	2,256	80,000	1,321	96	0
Entity 27	0	145,136	0	0	1	0
Entity 28	0	143,165	0	0	54	306
Entity 29	58,668	22,535	58,000	642	116	8
Entity 30	0	133,194	0	0	1	0
Entity 31	39,002	0	90,498	0	207	0
Entity 32	0	66,733	47,834	0	8	511
Entity 33	0	100,789	0	0	9	407
Entity 34	0	100,012	0	0	0	0
Total	**12,033,769**	**12,136,888**	**9,169,970**	**349,975**	**37,335**	**8,699**

(in PLN thousand)

BGK's significant transactions with entities associated with the State Treasury

Entity	31 Dec 2018			2018		
	Receivables	Liabilities	Financial and guarantee liabilities granted	Interest income	Commission income	Interest expense
Entity 4	1,700,799	293,649	1,593,500	54,864	1,579	611
Entity 5	0	98	3,524,529	0	3,691	2,328
Entity 6	1,919,848	0	725,214	44,143	734	10
Entity 1	851,858	1,578,230	0	35,274	1,498	32
Entity 7	0	346,777	1,588,740	0	10,639	817
Entity 3	1,573,442	347,448	0	31,090	887	15
Entity 8	1,457,841	245,566	60,000	40,596	532	0
Entity 2	876,528	331	862,303	22,874	3,222	530
Entity 10	433,667	115	614,217	5,923	1,333	0
Entity 14	0	0	578,508	0	1,682	0
Entity 11	165,280	408,010	0	832	11	2,328
Entity 15	0	502,538	0	0	1	6
Entity 13	45,000	7,012	342,849	2,257	972	0
Entity 18	234,341	157,330	0	3,393	205	17
Entity 35	44,121	300,337	0	1,771	513	3,759
Entity 16	69,782	159,227	48,218	39	226	0
Entity 17	0	200,906	0	0	1	9
Entity 20	37,000	145,240	0	18,784	697	81
Entity 24	0	165,985	0	0	1	0
Entity 29	0	30,392	127,500	843	203	0
Entity 22	0	149,171	0	0	1	41
Entity 30	0	132,742	0	0	2	119
Total	**9,409,507**	**5,171,104**	**10,065,578**	**262,683**	**28,630**	**10,703**

(in PLN thousand)

39. RELATED PARTY TRANSACTIONS (CAPITAL OR PERSONAL LINKS)

All related party transactions were entered into on arm's length terms. Standard market transactions involving loans, current and term deposits, liabilities due to repurchase agreements with related interest and commissions are presented below.

Entity name	31 Dec 2019			2019			
	Receivables	Liabilities	Financial and guarantee liabilities granted	Total income	Including interest and commissions	Total expenses	Including interest and commissions
Subsidiaries							
Fundusz Ekspansji Zagranicznej FIZ AN	0	0	90,705	0	0	0	0
Fundusz Sektora Mieszkań dla Rozwoju FIZ AN	0	5,854	239,828	150	150	406	406
Fundusz Sektora Mieszkań na Wynajem FIZ AN	0	0	0	26,251	0	837	837
Associates							
Dolnośląski Fundusz Gospodarczy Sp. z o.o.	0	10,240	0	1	1	191	191
Śląski Regionalny Fundusz Poręczeniowy Sp. z o.o.	0	35,186	0	0	0	460	460
Fundusz Rozwoju i Promocji Województwa Wielkopolskiego S.A.	0	10,799	0	0	0	109	109
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	0	7,659	0	0	0	85	85
Kujawsko-Pomorski Fundusz Poręczeń Kredytowych Sp. z o.o.	0	15,648	0	0	0	407	407
Opolski Regionalny Fundusz Poręczeń Kredytowych Sp. z o.o.	0	2,379	0	0	0	37	37
Samorządowy Fundusz Poręczeń Kredytowych Sp. z o.o.	0	14,082	0	0	0	228	228
Fundusz Pomerania Sp. z o.o.	0	9,531	0	0	0	209	209
Warmińsko-Mazurski Fundusz "Poręczenia Kredytowe" Sp. z o.o.	0	462	0	1	1	87	87
Świętokrzyski Fundusz Poręczeniowy Sp. z o.o.	0	20,966	0	2	2	2,264	344
Małopolski Regionalny Fundusz Poręczeniowy Sp. z o.o.	0	53,704	0	1	1	705	496
KUKE S.A.	3,000	30,372	0	0	0	0	0
Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZ AN	0	441,065	0	0	0	6,832	6,832
Fundusz Inwestycji Polskich Przedsiębiorstw FIZ AN	0	237,146	0	0	0	2,370	2,370
Fundusz Inwestycji Samorządowych FIZ AN	0	117,283	0	0	0	1,541	1,541
Fundusz Inwestycji Infrastrukturalnych – Dłużny FIZ AN	0	25,022	2,746	0	0	348	348
Other units							
Lubuski Fundusz Poręczeń Kredytowych Sp. z o.o.	0	14,006	0	0	0	316	316
Mazowiecki Fundusz Poręczeń Kredytowych Sp. z o.o.	0	19,887	0	0	0	465	465
Polski Fundusz Rozwoju S.A.	0	0	0	0	0	33	33
Krajowy Fundusz Kapitałowy S.A.	0	59,326	0	2	2	709	709
Toruński Fundusz Poręczeń Kredytowych Sp. z o.o.	0	5,032	0	0	0	93	93
Pomorski Regionalny Fundusz Poręczeń Kredytowych Sp. z o.o.	0	42,850	0	0	0	705	705
Total	**3,000**	**1,178,499**	**333,279**	**26,408**	**157**	**19,437**	**17,308**

(in PLN thousand)

Entity name	31 Dec 2018			2018			
	Receivables	Liabilities	Financial and guarantee liabilities granted	Total income	Including interest and commissions	Total expenses	Including interest and commissions
Subsidiaries							
BGK Nieruchomości S.A. (currently PFRN S.A.)	0	0	0	330	330	8	8
Fundusz Ekspansji Zagranicznej FIZ AN	0	0	91,589	0	0	0	0
Fundusz Sektora Mieszkań dla Rozwoju FIZ AN	0	0	300	150	150	0	0
Fundusz Sektora Mieszkań na Wynajem FIZ AN	0	0	354,827	0	0	0	0
Associates							
Bydgoski Fundusz Poręczeń Kredytowych Sp. z o.o.	0	0	0	1	1	0	0
Dolnośląski Fundusz Gospodarczy Sp. z o.o.	0	8,957	0	1	1	0	0
Fundusz Pomerania Sp. z o.o.	0	9,195	0	0	0	0	0
Fundusz Rozwoju i Promocji Województwa Wielkopolskiego S.A.	0	4,417	0	0	0	47	47
Kujawsko-Pomorski Fundusz Poręczeń Kredytowych Sp. z o.o.	0	16,838	0	0	0	0	0
KUKE S.A.	0	25,952	0	5	5	45	45
Małopolski Regionalny Fundusz Poręczeniowy Sp. z o.o.	0	10,118	0	1	1	4	4
Podkarpacki Fundusz Rozwoju Sp. z o.o.	0	0	0	4	4	1	1
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	0	3,830	0	0	0	42	42
Samorządowy Fundusz Poręczeń Kredytowych Sp. z o.o.	0	9,363	0	0	0	45	45
Świętokrzyski Fundusz Poręczeniowy Sp. z o.o.	0	20,382	0	1	1	1	1
Warmińsko-Mazurski Fundusz "Poręczenia Kredytowe" Sp. z o.o.	0	5,065	0	1	1	8	8
Fundusz Inwestycji Infrastrukturalnych – Dłużny FIZ AN	0	0	2,746	0	0	0	0
Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZ AN	0	440,192	0	0	0	0	0
Other units							
Krajowy Fundusz Kapitałowy S.A.	0	0	0	1,403	23	545	545
Toruński Fundusz Poręczeń Kredytowych Sp. z o.o.	0	3,104	0	0	0	0	0
Lubuski Fundusz Poręczeń Kredytowych Sp. z o.o.	0	27,399	0	0	0	0	0
PFR TFI S.A.	0	25,413	0	4	4	64	64
Total	**0**	**610,225**	**449,462**	**1,901**	**521**	**810**	**810**

(in PLN thousand)

40. Remuneration of the top executives

Members of the Management Board of BGK are remunerated in accordance with:

- the Act on Remuneration of the Management of Certain Entities of 9 June 2016 (Journal of Laws of 2017, item 2190),
- the Declaration of the Minister of Development and Finance of 14 October 2016 on rules for specifying the remuneration of the Members of the Management Board of Bank Gospodarstwa Krajowego,
- Remuneration Rules for Members of the Management Board of Bank Gospodarstwa Krajowego,
- the Policy governing variable remuneration components of employees identified to have a significant impact on the risk profile of Bank Gospodarstwa Krajowego.

The Bank's management staff – excluding the President and Members of the Management Board – are remunerated in accordance with:

- the Policy of remuneration for employees of Bank Gospodarstwa Krajowego,
- the Remuneration Rules for employees of Bank Gospodarstwa Krajowego,
- the Policy governing variable remuneration components of employees identified to have a significant impact on the risk profile of Bank Gospodarstwa Krajowego.

40.1. Remuneration of Members of the Management Board and Supervisory Board

Remuneration of Members of the Supervisory Board of the Bank	2019	2018
Supervisory Board of the Bank	987	880

Remuneration paid or due to Members of the Management Board of the Bank

Employee benefits	2019					
	Short-term employee benefits		Benefits after the employment period	Other long-term benefits	Termination benefits	
	Salaries	Other*			Paid in 2019	Paid at a later date
Management Board	3,912	2,382	none	none	none	none

* Third instalment of the supplementary remuneration for 2016 and non-deferred part of the supplementary remuneration for 2017 (60%), non-financial components: medical care, limit on car expenses, Multi Sport cards

Employee benefits	2018					
	Short-term employee benefits		Benefits after the employment period	Other long-term benefits	Termination benefits	
	Salaries	Other*			Paid in 2018	Paid at a later date
Management Board	3,912	30	none	none	none	none

* Second instalment of the deferred part of supplementary remuneration for 2016

41. Principles of variable remuneration for top executives

To meet the regulatory requirements with respect to designing remuneration policies for employees having a significant impact on the Bank's risk profile, the Policy governing variable remuneration components of identified employees having a significant impact on the risk profile at Bank Gospodarstwa Krajowego (the "Policy") was updated.

The Policy sets out the principles of awarding and paying variable remuneration components to employees having a significant impact on the Bank's risk profile.

The Management Board of the Bank approved the list of identified employees having a significant impact on the risk profile at Bank Gospodarstwa Krajowego.

The Bank established a Remuneration Committee at the Bank's Supervisory Board, composed of members appointed from the Supervisory Board. The competencies of the Committee have been defined in the Committee Regulations. Due to BGK's legal form (a state-owned bank) and the nature of its business, the Bank neutralises some requirements by way of, among other things, not paying the variable remuneration portion in shares and instruments other than shares.

As regards variable remuneration, the Bank applies the following principles:
- variable remuneration may not exceed 100% of the fixed remuneration component for a given year;
- where the variable remuneration base of an identified employee exceeds PLN 100 thousand (gross), the person acquires the right to receive non-deferred variable remuneration in the amount of 60% of the variable remuneration base, and 40% of the variable remuneration base is deferred;
- 40% of deferred variable remuneration is paid in three equal parts in a period of 3 years from the end of assessment period for which the remuneration is due.

The Bank has developed and followed appropriate policy monitoring procedures, such as those on monitoring the limits of variable remuneration components awarded to persons covered by the Policy. As part of variable remuneration,

in 2019 employees received a bonus for the first quarter (paid in April 2019), which in subsequent quarters was replaced by an annual bonus as a result of a change in remuneration policy – the annual bonus was paid in February and March 2020.
In addition, payments related to termination of an employment contract with an employee may be treated as variable remuneration.

Variable pay is awarded based on the degree to which the employee fulfilled their tasks as well as the evaluation of their work quality and performance. Variable pay also depends on whether the Bank has achieved a positive net financial result cumulatively from the beginning of the year.

42. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

42.1. CATEGORIES OF THE MEASUREMENT OF THE FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES MEASURED AT FAIR VALUE IN THE STATEMENT OF FINANCIAL POSITION

Based on fair value measurement methods, the Bank has classified its financial assets and financial liabilities to the following levels:

- Level 1 - prices quoted in active markets,
- Level 2 - valuation techniques based on observable market inputs,
- Level 3 - other valuation techniques.

Level 1 Prices quoted in active markets
Financial assets and liabilities, whose fair values are determined based on unadjusted, quoted prices for identical assets or liabilities in active markets. This category includes debt and equity instruments with an active market in place and the fair value determined based on the market value (prices on BondSpot, WSE):

- PLN-denominated treasury bonds in the held-for-trading portfolio and the portfolio of financial assets at fair value through other comprehensive income,
- shares in listed companies in continuous trading on the Warsaw Stock Exchange held in the portfolio of assets at fair value through profit or loss and in the portfolio of financial assets at fair value through other comprehensive income,
- subordinate bonds issued by financial institutions held in the portfolio of financial assets at fair value measured through other comprehensive income.

Level 2 Valuation techniques on observable market inputs
Financial assets and liabilities, whose fair value is determined using valuation models in which all material inputs are observed in the market either directly (as prices indicated by Refinitiv (former Reuters)/Bloomberg information services) or indirectly (based on a model of discounted future cash flows using quotations of interest rates on deposits, OIS, IRS, FRA, basis swap, currency basis swap, swap points, Treasury bond yields). This category includes financial instruments with no active market:

- NBP (money market) bills in the portfolio of financial assets at fair value through other comprehensive income,
- EUR-denominated treasury bonds in the portfolio of financial assets at fair value through profit or loss, and
- EUR and USD-denominated treasury bonds in the portfolio of financial assets at fair value through other comprehensive income,
- EUR-denominated corporate bonds issued by financial institutions in the portfolio of financial assets at fair value through profit or loss and in the portfolio of financial assets at fair value through other comprehensive income,
- PLN-denominated subordinated bonds issued by financial institutions held in the portfolio of financial assets at fair value though other comprehensive income,
- derivatives,
- shares in NYSE-listed companies (shares in VISA).

Level 3 Other valuation techniques
Financial assets and liabilities, whose fair value is determined based on models using unobservable market inputs. In this category, the measurement based on a model of discounted future cash flows using quotations of interest rates on deposits, OIS, IRS, FRA, basis swap, currency basis swap, Treasury bond yields, is adjusted for the risk margin. The category includes:

- PLN-denominated covered bonds issued by financial institutions held in the portfolio of financial assets measured through other comprehensive income,
- EUR-denominated subordinated bonds issued by financial institutions held in the portfolio of financial assets measured through other comprehensive income,
- PLN-denominated subordinated bonds issued by financial institutions held in the portfolio of financial assets measured through other comprehensive income,
- PLN-denominated corporate bonds and bills issued by financial institutions held in the portfolio of financial assets measured through other comprehensive income,

(in PLN thousand)

- PLN-denominated subordinated bonds issued by non-financial institutions held in the portfolio of financial assets measured through other comprehensive income,
- PLN-denominated corporate bonds issued by non-financial institutions held in the portfolio of financial assets measured through other comprehensive income,
- PLN-denominated municipal bonds held in the portfolio of financial assets measured through other comprehensive income,
- investment certificates and other shares not held for trading and classified in the portfolio of financial assets at fair value through profit or loss through other comprehensive income and through profit or loss,
- loans that failed the SPPI test held in the portfolio of assets at fair value through profit or loss.

Financial instruments are transferred between Level 1 and Level 2 based on the availability of quoted prices from the active market at the end of the reporting period. Compared to 2018, in 2019 NYSE-listed VISA shares (with the carrying amount of the exposure at PLN 3.7 million) were transferred from Level 1 to Level 2 following the recognition of a significant impact on the price of a non-market component. Reclassification from Level 2 to Level 3 occurs if an observable input is replaced with an unobservable one or if a new unobservable risk is used in the valuation, which, at the same time, considerably affects the price of the instrument. Reclassification from Level 3 to Level 2 occurs if an unobservable input is replaced with an observable one or if the pricing effect of an unobservable input becomes negligible.

Compared to 2018, in 2019 exposures to corporate and subordinate bonds issued by financial institutions with a total carrying amount of PLN 299 million were transferred from Level 3 to Level 2 due to the use of quotations available on the Refinitiv (previously Reuters) information website for measurement purposes. Transfers between individual measurement levels are recognised as at the end of the reporting period.

The carrying amounts of individual categories of financial assets and liabilities by measurement level as at 31 December 2019 are presented below.

Assets and liabilities at fair value as at 31 December 2019	Carrying amount	Level 1 Prices quoted in active markets	Level 2 Valuation techniques based on observable market inputs	Level 3 Other valuation techniques
Financial assets held for trading	576,573	1,666	574,907	0
- debt instruments	1,666	1,666	0	0
- derivatives	574,907	0	574,907	0
Financial assets at fair value through profit or loss	821,198	11,657	173,135	636,406
- debt instruments	227,171	0	173,135	54,036
- equity instruments	11,657	11,657	0	0
- other financial assets	582,370	0	0	582,370
Financial assets at fair value through other comprehensive income	20,072,326	10,575,552	4,811,209	4,685,565
- debt instruments	19,121,315	9,665,530	4,807,553	4,648,232
- equity instruments	951,011	910,022	3,656	37,333
Loans and advances to customers at fair value through profit or loss	124,870	0	0	124,870
Total assets at fair value	**21,594,967**	**10,588,875**	**5,559,251**	**5,446,841**
Derivatives	611,330	0	611,330	0
Total liabilities at fair value	**611,330**	**0**	**611,330**	**0**

(in PLN thousand)

Assets and liabilities at fair value as at 31 December 2018	Carrying amount	Level 1 Prices quoted in active markets	Level 2 Valuation techniques based on observable market inputs	Level 3 Other valuation techniques
Financial assets held for trading	979,480	605	978,875	0
- debt instruments	617	605	12	0
- derivatives	978,863	0	978,863	0
Financial assets at fair value through profit or loss	740,141	25,106	130,430	584,605
- debt instruments	269,302	0	130,430	138,872
- equity instruments	25,106	25,106	0	0
- other financial assets	445,733	0	0	445,733
Financial assets at fair value through other comprehensive income	15,834,203	9,273,653	2,644,059	3,916,491
- debt instruments	14,754,676	8,230,242	2,644,059	3,880,375
- equity instruments	1,079,527	1,043,411	0	36,116
Loans and advances to customers at fair value through profit or loss	146,088	0	0	146,088
Total assets at fair value	**17,699,912**	**9,299,364**	**3,753,364**	**4,647,184**
Derivatives	1,576,995	0	1,576,995	0
Total liabilities at fair value	**1,576,995**	**0**	**1,576,995**	**0**

- Total Level 3 gains and losses recognised in profit or loss and in equity are presented below.

Instrument type	Gains and losses recognised in profit or loss		Gains and losses recognised in equity	
	2019	2018	2019	2018
Corporate bonds	-15,941	42,444	10,727	-902
Municipal bonds	11,969	31,360	-3,281	7,420
Shares	90,589	-70	1,296	4,459

- Acquisitions, sale, issues and settlements for Level 3 are presented below.

2019

Instrument type	Matured	New issues	Issued and maturing in the same year	Sale
Corporate bonds	0	240,000	0	0
Municipal bonds	83,895	452,940	7,500	6,525

2018

Instrument type	Matured	New issues	Issued and maturing in the same year	Sale
Corporate bonds	639,394	1,090,026	2,486	184,091
Municipal bonds	91,276	1,164,944	0	13,600

The estimated effect of changes in the fair value measurement of derivatives with a symmetrical risk profile, unlisted debt securities at fair value through other comprehensive income, and receivables classified in the fair value through profit or loss measurement category, due to a parallel shift in the yield curve is presented in the tables below.

Change in the measurement of derivatives with a linear risk profile due to a parallel shift in the yield curve	31 Dec 2019		31 Dec 2018	
Change in the measurement due to a parallel shift in the yield curve by:	+ 50bp	- 50bp	+ 50bp	- 50bp
Change in measurement of derivatives (assets decreased by liabilities)	3,260	-3,260	2,671	-2,671

Change in the fair value measurement of unlisted debt securities at fair value through other comprehensive income due to a parallel shift in the yield curve	31 Dec 2019		31 Dec 2018	
Change in the measurement due to a parallel shift in the yield curve by:	+ 50bp	- 50bp	+ 50bp	- 50bp
Change in measurement of unlisted financial instruments	-7,673	7,673	-5,373	5,373

(in PLN thousand)

Change in the fair value measurement of receivables at fair value through profit or loss due to a parallel shift in the yield curve	31 Dec 2019		31 Dec 2018	
Change in the measurement due to a parallel shift in the yield curve by:	**+ 50bp**	**- 50bp**	**+ 50bp**	**- 50bp**
Change in measurement of receivables	701	-701	1,309	-1,309

42.2. FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT PRESENTED AT FAIR VALUE IN THE STATEMENT OF FINANCIAL POSITION

In the absence of expected considerable differences between the carrying amounts and the fair values of selected groups of financial instruments, resulting from the characteristics of such groups (such as short term, high correlation with market parameters) and low market interest rates, it was assumed that their carrying amounts correspond to the fair values. This pertains, in particular, to items such as: cash and balances with the Central Bank, deposits, interbank deposits, and liabilities to customers.

The fair value of credit exposures was measured using the discounted cash flow method at an interest rate appropriate for each credit transaction (taking into account the market risk margin). For exposures with no repayment schedule and impaired exposures, the fair value is presented as a net amount.

The fair value of the Bank's assets related to debt securities at amortised cost was estimated using a valuation technique consisting in discounting future cash flows, where a curve based on WIBOR, IRS, basis swap and FRA rates were used as the projection curve, while a curve based on the yield on T-bonds, shifted by the credit spread, was used as the discount curve.

The fair value of the Bank's liabilities due debt securities issued was determined on the basis of:

- quoted prices in the Catalyst system – for publicly traded bonds,
- a measurement technique of discounted future cash flows – for other securities – where a curve based on WIBOR, IRS, basis swap and FRA rates were used as the projection curve, while a curve based on the yield on T-bonds, shifted by the credit spread, was used as the discount curve. The credit spread for measurement was based on bonds issue price. Due to the latter component of measurement, which is not an observable quotation, the measurement of these bonds is classified at Level 3.

As regards other assets and liabilities which are not measured at fair value, the Bank assumed that there were no major differences between the fair value of an asset or liability and its carrying amount.

The fair values of financial assets and financial liabilities not presented at fair value in the statement of financial position are presented below.

	Fair value hierarchy	31 Dec 2019	
		Carrying amount	Fair value
Cash and balances with the Central Bank	3	22,729,376	22,729,376
Amounts due from banks	3	6,846,065	6,845,782
Loans and advances to customers at amortised cost	3	30,762,124	30,558,655
Debt instruments at amortised cost	3	7,397,934	7,533,539
Reverse repurchase agreements	3	5,301,537	5,301,537
Amounts due to banks	3	4,119,646	4,119,646
Liabilities to customers	3	59,821,262	59,821,262
Liabilities due to repurchase agreements	3	9,113,388	9,113,388
Debt securities issued	3	7,251,523	7,276,782

	Fair value hierarchy	31 Dec 2018	
		Carrying amount	Fair value
Cash and balances with the Central Bank	3	16,668,895	16,668,895
Amounts due from banks	3	7,904,427	7,905,415
Loans and advances to customers at amortised cost	3	25,783,623	25,784,943
Debt instruments at amortised cost	3	6,881,770	7,064,459
Reverse repurchase agreements	3	3,874,660	3,874,660
Amounts due to banks	3	3,879,221	3,879,221
Liabilities to customers	3	47,769,258	47,769,258
Liabilities due to repurchase agreements	3	5,214,051	5,214,051
Debt securities issued	1	1,397,038	1,407,034
Debt securities issued	3	4,389,598	4,421,003

(in PLN thousand)

Effect of an increase/decrease in the present value of cash flows on impairment allowances on/provisions for impaired exposures – tested individually – Stage 3	31 Dec 2019		31 Dec 2018	
Increase/decrease in the present value of cash flows	**10%**	**-10%**	**10%**	**-10%**
Estimated change in impairment allowances on on-balance-sheet exposures tested individually	-109,366	229,257	-107,839	183,477
Estimated change in provisions for off-balance-sheet liabilities tested individually	-25,165	33,533	-23,236	127,509

Effect of an increase/decrease in LGD on impairment allowances on/provisions for impaired exposures – tested on a collective basis – Stage 3	31 Dec 2019		31 Dec 2018	
Increase/decrease in LGD	**10%**	**-10%**	**10%**	**-10%**
Estimated change in impairment allowances on on-balance-sheet exposures tested on a collective basis	5,478	-15,276	4,595	-6,755
Estimated change in provisions for off-balance-sheet liabilities tested on a collective basis	164	-184	108	-126

Effect of an increase/decrease in PD and LGD on impairment allowances on/provisions for non-impaired exposures – Stage 1 and 2	31 Dec 2019		31 Dec 2018	
Increase/decrease in PD	**10%**	**-10%**	**10%**	**-10%**
Estimated change in impairment allowances on non-impaired on-balance-sheet exposures	33,985	-34,640	26,751	-28,058
Estimated change in provisions for non-impaired off-balance-sheet liabilities	13,876	-16,097	15,607	-15,569
Increase/decrease in LGD	**10%**	**-10%**	**10%**	**-10%**
Estimated change in impairment allowances on non-impaired on-balance-sheet exposures	34,412	-34,446	26,562	-26,562
Estimated change in provisions for non-impaired off-balance-sheet liabilities	16,118	-16,093	15,540	-15,560

43. CUSTODY BUSINESS

In 2019 and 2018, under the decision of 18 February 2011 of the Polish Financial Supervision Authority the Bank maintained securities accounts (trust activities) with dematerialised securities.

Securities	31 Dec 2019	31 Dec 2018
KDPW	**240,795,843**	**232,455,202**
Bonds on deposit accounts	489,925	86,940
Bonds in the issue sponsor register	266,482	0
Treasury bonds entity 1	240,039,436	232,368,262
National Bank of Poland (NBP)	**807,500**	**828,500**
Money bills	807,500	828,500
BGK	**434,642**	**417,115**
Municipal bonds on deposit accounts	69,642	84,667
Other bonds on deposit accounts	365,000	332,448
Total	**242,037,985**	**233,700,817**

In the financial years 2019 and 2018, the Bank maintained securities accounts only with dematerialised financial instruments of its clients.

In accordance with the amended Act on Trading in Financial Instruments (Journal of Laws of 2020, item 89), since 1 July 2019 the Bank, as part of its trust activities, has acted as the Issue Agent for corporate and municipal bonds. After 1 July 2019, Bank Gospodarstwa Krajowego has assumed such role in 89 issues for an aggregate of PLN 266,482 thousand (issue sponsor register).

RISK MANAGEMENT OBJECTIVES AND PRINCIPLES

44. RISK MANAGEMENT

The internal objective of risk management at the Bank is to maintain stability and security of banking operations as well as to maintain a high quality of assets and achieve anticipated financial result within an acceptable risk level.

The main risk management guidelines at BGK are defined in the Bank's risk management strategy as well as in policies for managing particular types of risks. Risk appetite is determined, inter alia, by the acceptable level of capital adequacy ratio, short-term liquidity ratio, and the acceptable level of individual risk types. In the allocation process, the required capital is distributed among individual risk types, with limit levels defined for individual risks at BGK.

The diagram below presents the general structure of the areas subject to the limits.

The risk management is based on:

- Risk Management Strategy at BGK approved by the Supervisory Board of the Bank,
- Capital Management Policy and Internal Capital Assessment at BGK approved by the Supervisory Board of the Bank,
- risk management policies, principles, and procedures related to risk identification, measurement or assessment, control, monitoring and reporting, developed in written form and approved by the Supervisory Board or the Management Board of the Bank,
- HR management rules, including rules governing recruitment, monitoring of staffing needs, human resources planning, and the Policy governing variable remuneration components of employees identified to have a significant impact on the risk profile, approved by the Bank's Supervisory or Management Board.

The regulations are reviewed systematically so that they can be adjusted to the changes in the risk profile, business environment and good professional practices.

In addition, at least each year the Bank reviews:

1) the implementation of the Bank's Risk Management Strategy and the functioning of the risk management system, including ILAAP (Internal Liquidity Adequacy Assessment Process),
2) ICAAP (Internal Capital Adequacy Assessment Process).

The risk management system is designed in such a way as to ensure a uniform and efficient process of identification, measurement or assessment, control, monitoring and reporting of risks.

The risk identification process includes determination of risk types, their sources (factors), determination of areas exposed to a given risk and identification of risks related to products, projects, processes and procedures.

The risk measurement/assessment process includes methods of risk quantification and performing stress tests.

The risk control process comprises the determination and enforcement of risk control mechanisms (i.e. limit systems, ensuring independence between first-level risk management from second-level risk management, insurance, risk transfer, financing plans).

The risk monitoring process includes supervision of the level of risk taken, reviews of relevance and accuracy of the applied methods of risk assessment and evaluation of efficiency of the tools used.

The risk reporting process includes information on the risk profile, identification of possible threats, and information on the measures adopted.

Organisation of risk management for the key risk types:

	Risk management supervision	Risk appetite	Strategic management	Tactical management	Risk monitoring
Credit risk, counterparty credit risk and concentration	Supervisory Board	Supervisory Board Management Board	Management Board CC, ALCO	CC, ALCO, decision-making bodies in accordance with their competences	Credit risk units
Market risk	Supervisory Board	Supervisory Board Management Board	Management Board ALCO	Treasury unit	Financial risk unit
Liquidity risk	Supervisory Board	Supervisory Board Management Board	Management Board ALCO	Treasury unit	Financial risk unit
Operational risk	Supervisory Board	Supervisory Board Management Board	Management Board ORC	Each organisational unit of the head office/Region	Operational risk unit
Compliance Risk	Supervisory Board	Supervisory Board Management Board	Management Board ORC	Each organisational unit of the head office/Region	Compliance unit
Capital adequacy	Supervisory Board	Supervisory Board Management Board	Management Board ALCO	Each business unit	Financial risk unit

Supervisory Board of the Bank

The Supervisory Board exercises supervision over the introduction of risk management system and evaluates its adequacy and efficiency in particular through approving acceptable risk level and monitoring its compliance.

The Bank's Supervisory Board is supported by the Risk Committee, Audit Committee and Remuneration Committee.

Risk Committee

The Risk Committee supports operations of the Bank's Supervisory Board, supervising the management system for all risks identified in the Bank's operations, in particular by providing opinions as to the Bank's overall ongoing and future risk appetite. The Risk Committee includes persons appointed from among the members of the Bank's Supervisory Board.

Audit Committee

The Audit Committee supports the Bank's Supervisory Board, in particular through oversight over the internal audit area and monitoring the financial and management reporting process, as well as financial audit activities carried out at the Bank. The Audit Committee includes persons appointed from among the members of the Bank's Supervisory Board.

Management Board of the Bank

The Management Board of the Bank is responsible for organising and administering the risk management process and ensuring the efficiency of the risk management system. One of the Management Board members, who has obtained consent of the Polish Financial Supervision Authority to be appointed as a Management Board member, supervises the banking risk area that covers organisational units managing credit, financial, operating, and other risks.

In its risk management activities, the Bank's Management Board is supported by the Bank's Financial Committee (BFC), Bank's Operational Risk and Internal Control Committee (ORC), Bank's Credit Committee (BCC) and Model Management Committee.

45. CREDIT RISK MANAGEMENT

Definition

Credit risk is defined as a threat of a borrower's default on the payment of liability under an agreement, i.e. failure to repay receivables under credit exposure along with the Bank's remuneration within time limits defined in the agreement.

Management purposes

Main credit risk management purposes are as follows:
- identification of credit risk areas and its mitigation to a level accepted by the Bank,
- regular review of actions completed in this risk area,
- composition of balance-sheet and off-balance-sheet items of the Bank to minimise the risk of negative deviation of the financial result from the Bank's financial plan.

Control

Control of credit risk involves the application of adequate methods, models and monitoring system and setting risk limits which are acceptable with respect to individual sectors and industries, counterparty and product segments. The limit system is subject to the risk guidelines specified by the Bank's Supervisory and Management Boards.

Monitoring

Credit risk monitoring process involves cyclical review of risk measure levels for the loan portfolio and individual counterparties. In the case of a loan portfolio it involves an analysis of the use of limits and threshold values, while in the case of individual counterparties monitoring is carried out on a continuous basis and consists in identification of elements suggesting a likely decline in creditworthiness.

Another important element of the assessment and monitoring process is a regular review of the Bank's credit exposure collateral.

Pursuant to applicable regulations, the Bank performs - at least once a year - stress tests of credit exposure sensitivity to changes in the exchange rates, interest rate and the value of the existing mortgage collaterals.

Reporting

The Bank prepares regular reports on its credit risk and risk concentration, including:
- a monthly report for the Bank's Management Board and Credit Committee, also made available to the Bank's Financial Committee, containing inter alia information on the quality and structure of the loan portfolio,
- a quarterly report for the Bank's Management Board, Credit Committee, and Risk Committee, and every six months also for the Bank's Supervisory Board, also made available to the Bank's Financial Committee, containing *inter alia* information on the quality and structure of the loan portfolio, including a sub-loan portfolio of mortgage-backed exposures and results of concentration limit stress tests,
- an annual report for the Bank's Management Board, Credit Committee, Risk Committee and the Bank's Supervisory Board, also made available to the Bank's Financial Committee, containing *inter alia* detailed information on the quality and structure of the loan portfolio, including a sub-loan portfolio of mortgage-backed exposures, results of concentration limit stress tests, and information on other credit risk aspects important to the Bank,

and a range of other reports and analyses related to the fields of operation exposed to credit risk.

45.1. Credit risk management at the Bank

Credit risk management engages relevant units of the Risk Division.

The credit risk management process is carried out at the level of the loan portfolio and customer risk with individual credit exposure taken into account, on the basis of:
- Risk management Strategy at BGK,
- planned, targeted actions defined in the credit policy,
- internal regulations,
- available support systems and tools,
- recommendations and guidance for regional and other units of the Bank.

Credit risk management helps to identify, measure or estimate, monitor, report, and control the risk.

The Management Board of the Bank defines the credit policy based on the risk appetite specified in the Risk Strategy, business model provided for in the Bank's Strategy, the existing level of credit risk borne by the Bank, the structure of credit portfolio, the structure of legal collaterals, repayments of the transactions bearing credit risk, and external macroeconomic factors. Among other elements, the credit policy indicates the acceptable level of risk for the credit portfolio, credit purposes and recommendations, credit profile for individual customer and product segments, risk management process, and the related best practices.

45.2. Model for impairment and recognition of impairment allowances

Since 1 January 2018 impairment allowances at the Bank are recognised in accordance with International Financial Reporting Standard 9 *Financial Instruments* ("IFRS 9"). IFRS 9 provides for calculation of impairment allowances based on expected credit losses and taking into account forecasts and expected future economic conditions in the light of credit risk exposure assessment.

The impairment model applies to financial assets classified, in line with IFRS 9, as financial assets measured at amortised cost (AC), as financial assets measured at fair value through other comprehensive income (FVOCI) and as off-balance-sheet credit exposures.

IFRS 9 introduced a material change in the measurement of impairment of financial assets, under which the concept of expected credit losses (ECL) replaced the previous concept of incurred losses. The change in approach resulted in a significant increase in the importance of estimates and assumptions for impairment measurement, in particular for identification of a significant increase in credit risk and the related measurement of lifetime expected credit losses of an exposure.

In the assessment of expected credit losses a broad range of information is taken into account, including historical and current data and information on future economic conditions expected by the Bank's unit in charge of macroeconomic forecast.

The impairment model compliant with IFRS 9 is based on a division of exposures into stages depending on the changes in credit quality relative to the initial recognition in accounting records. The manner of calculation of an impairment loss depends on the stage:

Stage	Criterion for classification (stages)	Manner of calculation of an impairment loss
Stage 1	Exposures for which from the initial recognition until the reporting date no significant increase in credit risk was identified and with no impairment	12-month expected credit loss
Stage 2	Exposures for which from the initial recognition until the reporting date a significant increase in credit risk was identified and with no impairment	Lifetime expected credit losses
Stage 3	Impaired exposures	
POCI	Exposures impaired at initial recognition	

As at the date of these financial statements, in its loan portfolio the Bank held financial assets classified as POCI at initial recognition (i.e. purchased or originated credit-impaired assets). POCI financial assets remain classified as POCI in all subsequent periods until they are derecognised. This principle applies also when the asset is cured in the meantime. In other words, assets that have been recognised as POCI retain that status regardless of any future changes in estimates of cash flows to be generated by such assets. For POCI instruments credit losses are recognised at amounts of lifetime expected credit losses throughout the expected life of the instruments.

Impairment of credit exposures

The Bank regularly reviews credit exposures to identify credit exposures in respect of which the credit risk has increased significantly, or with impairment risk, to measure impairment of credit exposure and to recognise impairment allowances.

The process of recognising impairment allowances comprises the following stages:
- identification of significant increases in credit risk,
- identifying evidence of impairment and impairment triggers,
- registering impairment triggers for credit exposures in IT systems of the Bank,
- determining the method of impairment measurement,
- measuring impairment and determining the impairment allowance,
- reviewing and aggregating results of impairment measurement,
- reporting results of impairment measurement.

The method of determining amount of impairment allowance depends on the type of impairment objective evidence and an individual size of the credit exposure.

Individual impairment triggers include in particular:
- loan becomes past due more than 90 days,
- significant deterioration of the customer's financial condition,
- conclusion of a debt restructuring agreement or debt relief (evidence is recognised if these actions were required for business and legal reasons resulting from financial difficulties of the client).

When determining the delinquency period, the Bank accounts for overdue interest and principal amounts in excess of thresholds determined.

Impairment testing methods

There are two methods of impairment testing applicable at the Bank:
- individual testing − applied to exposures which are individually significant, for which an indication of impairment was identified,
- collective testing – applied to exposures:
  - for which no indication for impairment was identified and for which individual testing has not indicated an impairment,
  - which are individually insignificant, for which indication for impairment was identified.

When determining the impairment loss amount using the individual approach, expected future cash flows are estimated for each credit exposure individually.

The Bank tests the impairment amount on a collective basis using portfolio parameters estimated with statistical methods, based on historical data on exposures of the same nature.

Impairment loss on credit exposures tested on a collective basis is equal to the difference between the carrying amount of these exposures and the present value of future cash flows estimated using statistical methods based on historical data on exposures in homogeneous portfolios.

Impairment loss on off-balance-sheet credit exposures is determined as the difference between the expected value of the balance sheet exposure resulting from the off-balance-sheet liability granted (from the test date to the date of overdue debt constituting the objective evidence of impairment of individually significant exposures) and the present value of future cash flows from the balance sheet exposure resulting from the off-balance-sheet liability.

Calculation of expected credit losses

Calculation of lifetime expected credit losses requires the application of risk parameters for many years. For the purposes of calculation of a credit loss in accordance with IFRS 9, the Bank compares cash flows that it should collect under a loan agreement with the cash flows that the Bank estimates to collect. The Bank discounts the difference with the original effective interest rate, and in the case of POCI assets – with the credit risk-adjusted original effective interest rate.

Method of calculation of collective parameters – PD, RR and EAD

The PD parameters amount to an assessment of the probability of default in subsequent annual periods over the lifetime of an exposure. A PD curve concerning a given exposure is dependent on the current value of the 12-month PD parameter (and the relevant rating class) determined based on the Bank's internal PD models.

In the estimation process the Bank takes into account both existing and forecast macroeconomic conditions (Paragraph 5.5.17(c) of IFRS 9).

Parameters are calculated depending on the type of homogeneous portfolio. Homogenous groups of exposures were defined based on the following features:
- customer segment,
- type of product,
- credit rating or assessment process in line with an adopted scale,
- stage of loan handling,
- delay in repayment.

The most common method of LGD calculation applied at the Bank is the calculation of the expected recovery rates (RR) based on the Roll Rates model, under which within homogenous groups average monthly recoveries are calculated conditionally against the period of default.

Average monthly recovery rates represent repayments and recoveries weighted by the outstanding principal amount observed at the beginning of a given month since default.

As part of measurement of expected credit losses for exposures with a repayment schedule, the Bank determines a single amount of expected loss (allowance). The amount is first charged as an allowance against the credit exposure, up to the equivalent of the book value of the credit exposure. If the total allowance is greater than the book value of the credit exposure, the difference is charged to off-balance-sheet portion of the exposure.

For exposures for which no repayment schedule is available, the allowance is measured separately for the on-balance-sheet and off-balance-sheet portion of the credit exposure (based on calculated amounts of EAD for balance-sheet items and off-balance-sheet items).

For exposures for which it is not possible to determine risk parameters based on internal models, the Bank adopts an approach based on using parameters from other portfolios with similar characteristics or expert parameters, in particular where a portfolio for which a parameter is to be determined is small or treated as a low default portfolio.

The models and parameters used to calculate allowances are periodically reviewed for their adequacy – once every six months, and validated on an annual basis. Validation is implemented as part of a group of processes governed by the "Rules of model management at Bank Gospodarstwa Krajowego" and carried out by the Bank's Head Office organisational unit which is not involved in creation, implementation and use of the model. The process is aimed at assessing the model's efficiency and consists in, among other things, analysis of whether the model concept and assumptions are adequate for the decision-making process or mechanism in which the model is applied, and whether it has been properly structured and implemented in practical and formal terms.

The outcome of the validation is documented in a validation report, which includes, *inter alia*, a description of actions taken and their results, together with recommendations, if any, with the assigned risk category and their materiality assessment. The report is presented at the Model Management Committee and submitted to the Operational Risk Office.

Low credit risk criterion

In accordance with Paragraph 5.5.10 of IFRS 9 exposures that are considered as low risk credit exposures at the reporting date may remain in Stage 1 if the quantitative criterion of a significant increase in credit risk since initial recognition is met. If a qualitative criterion is met or if exposures become past due by more than 30 days, the exposures are transferred to Stage 2. In accordance with Paragraph B.5.5.22 of IFRS 9, the credit risk of a financial instrument is considered low if:

- the financial instrument has a low default risk,
- the borrower has a strong capacity to meet its contractual obligations in the near term,
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual obligations.

The Bank does not consider that credit exposures have low credit risk when it regards them as having a low risk of loss simply because of the value of collateral and the credit exposure without that collateral would not be considered low credit risk. Also, the Bank does not consider that credit exposures have low credit risk simply because they have a lower default risk than the borrower's other credit exposures or relative to the credit risk of the jurisdiction within which the borrower operates.

The Bank applies the low credit risk criterion to credit exposures with a low internal risk rating (first four classes), which do not meet the qualitative or past-due criteria as the criteria of a significant increase in credit risk.

45.3. FINANCIAL ASSETS WITH AN IDENTIFIED SIGNIFICANT INCREASE IN CREDIT RISK

Financial assets for which at the reporting date the Bank identifies a significant increase in credit risk since initial recognition are classified in Stage 2. The Bank considers that for a given asset a significant increase in credit risk has been identified if a quantitative or qualitative criterion is met or if contractual payments are more than 30 days past due, whereas the occurrence of a given criterion is assessed at the exposure level.

Quantitative criteria of an increase in credit risk

A quantitative criterion is applied only to homogenous portfolios of credit exposures with assigned internal ratings. Assessment of a quantitative criterion consists in comparing the existing (at the reporting date) level of credit risk (risk of default) with the level of credit risk as at the date of initial recognition. The process is aimed at assessing the increase of credit risk based on a change in the credit risk over the expected life of the exposure (LtPD – life time probability of default).

The transfer of credit exposure from Stage 1 to Stage 2 is made following an assessment of an increase in credit risk and is based only on the risk of default. Changes in LGD do not result in transfers of exposures between Stage 1 and Stage 2.

Classification to Stage 2 is based on the limit of the materiality threshold, determined as a relative value above which an exposure is classified to Stage 2 by comparing the LtPD at the reporting date with the LtPD as at the date of initial recognition. For both curves, the comparison is made for identical period, i.e. from the reporting date until maturity.

For certain portfolios covered by rating models, reclassification of exposures to Stage 2 is based on classification to a specific rating class at the reporting date, above which the exposure is classified to Stage 2, or the credit exposure is ranked above a specific rating class as at the reporting date and there was a change in the rating class by a specific number of classes. A change in rating classes is determined based on comparison of a rating class as at the reporting date with the rating class as at the date of initial recognition.

Limit values of the relative change in credit risk that qualify exposures to be classified to Stage 2 are verified as part of a model review, which is carried out at least each year.

Qualitative criteria of an increase in credit risk

Qualitative criteria of a significant increase in credit risk are selected from the catalogue of Early Warning Signals (EWS) and are defined as “strong” in accordance with the classification applied at the Bank. Their occurrence is associated with a high likelihood of a default of an exposure. The criteria are considered indicative and require confirmation each time they occur.

In addition, a credit exposure which is overdue by more than 30 days is treated as a criterion of a significant increase in risk.

45.4. FINANCIAL ASSETS WITH IDENTIFIED IMPAIRMENT

The Bank assesses all credit exposures (credit exposure groups) for existence of objective evidence of impairment using the most recent data available to the Bank as at the date of revaluation, based on a catalogue of impairment triggers defined in internal regulations governing the recognition and measurement of expected credit losses.

Financial assets for which at the reporting date the Bank has identified the occurrence of an impairment trigger are classified in Stage 3. The Bank analyses the occurrence of evidence of impairment at the level of an agreement/transaction and customer.

If evidence of impairment is identified for a customer of any of its credit exposures, all other credit exposures of that customer are treated as exposures for which evidence of impairment exists.

In the case of related parties, existence of evidence of impairment at either of such parties does not result in the treatment of exposures of other related parties as exposures for which evidence of impairment exists.

(in PLN thousand)

45.5. TAKING INTO ACCOUNT EXPECTATIONS REGARDING FUTURE MACROECONOMIC CONDITIONS

IFRS 9 requires the Bank to take into account expectations regarding the macroeconomic situation in the calculation of expected credit losses. As required by Paragraph 5.5.4 of IFRS 9, the Bank adjusts risk parameters to take into account forecast forward-looking macroeconomic information (such as: interest rate, foreign exchange rates), for portfolios for which it has identified a dependency. The source of information on the values of macroeconomic factors are forecasts prepared by the Bank's economic analysts.

45.6. DERIVATIVE FINANCIAL INSTRUMENTS

In the case of derivatives, the Bank is exposed to the risk of default by the counterparty to a transaction related to a given derivative. In the case of customers other than banks, settlements are usually made in net amounts which protects the Bank against a potential settlement risk. In justified cases, the Banks secures additional collaterals in the form of deposits from customers in order to limit the risk.

45.7. CREDIT RISK RESULTING FROM GRANTED LIABILITIES

The Bank offers their customers guarantees whereby the Bank may be obliged to make a payment on their behalf and enter into obligations to extend granted loans to satisfy their liquidity needs. Under the terms of letters of credit and guarantees (including standby letters of credit), the Bank is obliged to make payments on behalf of its customers in specific cases, usually related to imports and exports of goods. Such obligations expose the Bank to a risk similar to the risk related to loans which is mitigated by the same risk control processes and policies.

45.8. RATING SYSTEM APPLIED AT THE BANK

The Bank manages the credit quality of assets using, *inter alia*, internal credit ratings. The Bank applies internal ratings with respect to local government units, enterprises and healthcare entities conducting full financial reporting, foreign entities, housing cooperatives and social housing associations.

The Bank applies a master scale for the rating methods used for individual customer segments, from 1 to 20, where rating classes at or higher than Level 18 represent default classes.

Pursuant to the adopted policy, the Bank applies risk rating to the majority of credit exposures in the loan portfolio. This helps appropriately manage the existing risk and compare the credit risk with reference to various customer and product segments.

Customers without internal ratings mainly comprise new transactions that finance investment ventures in the form of special purpose vehicles.

45.9. ANALYSIS OF THE MAXIMUM EXPOSURE TO CREDIT RISK, RISK RELATED TO COLLATERALS, AND OTHER ELEMENTS IMPROVING THE LENDING TERMS AND CONDITIONS

The table below presents the maximum exposure to credit risk, divided into financial assets classes.

Maximum exposure to credit risk excluding collaterals (by classes of financial instruments)	**31 Dec 2019**	**31 Dec 2018**
Cash in Central Bank	22,729,376	16,668,286
Amounts due from banks	6,846,065	7,904,427
Financial assets held for trading	576,573	979,480
Financial assets at fair value through profit or loss	821,198	740,141
Financial assets at fair value through other comprehensive income	20,072,326	15,834,203
Loans and advances to customers	30,886,994	25,929,711
Debt instruments at amortised cost	7,397,934	6,881,770
Reverse repurchase agreements	5,301,537	3,874,660
Other assets	5,488,991	5,602,024
Total	**100,120,994**	**84,414,702**

	31 Dec 2019	**31 Dec 2018**
Maximum exposure to credit risk in connection with the provided guarantees	10,151,867	12,981,856

The Bank holds a significant portfolio of guarantees granted mostly to non-financial entities, including enterprises. Maximum exposure to credit risk in connection with guarantees given by the Bank as at the end of 2019 was PLN 10,151,867 thousand.

(in PLN thousand)

45.10. QUALITATIVE STRUCTURE AND PORTFOLIO DISTRIBUTION

The Bank manages the credit quality of assets using a whole range of methods to mitigate credit risk, including internal credit ratings. The rating system applied at the Bank uses various financial analytical tools and processed market information to obtain major input data for measuring the risk related to an individual customer. The rating models are monitored and validated on an ongoing basis.

When determining and monitoring customers' credit risk, the Bank also uses the ratings assigned to the customers by reputable rating agencies.

The tables below present portfolio allocation.

- Loans and advances to customers and banks, liabilities under loans and guarantees granted, debt instruments and derivatives by credit risk rating

Loans and advances to customers and banks at amortised cost as at 31 December 2019

Internal rating	Stage 1	Stage 2	Stage 3	POCI	Total
Rating from 1 to 13	22,451,468	1,726,491	203,161	55	24,381,175
Rating from 14 to 17	277,668	546,466	285,062	0	1,109,196
Rating 18 and below	69,098	160,633	1,129,175	0	1,358,906
no rating	5,156,634	270	350,555	0	5,507,459
Total gross carrying amount	**27,954,868**	**2,433,860**	**1,967,953**	**55**	**32,356,736**
Impairment allowances	**179,639**	**121,165**	**774,751**	**-7,703**	**1,067,852**
Total net carrying amount	**27,775,229**	**2,312,695**	**1,193,202**	**7,758**	**31,288,884**

Loans and advances to customers and banks at amortised cost as at 31 December 2018

Internal rating	Stage 1	Stage 2	Stage 3	POCI	Total
Rating from 1 to 13	17,896,102	2,402,729	273,674	5,136	20,577,641
Rating from 14 to 17	328,060	474,086	174,680	110,576	1,087,402
Rating 18 and below	147,410	152,368	1,304,050	10,425	1,614,253
no rating	3,745,143	135,117	216,177	0	4,096,437
Total gross carrying amount	**22,116,715**	**3,164,300**	**1,968,581**	**126,137**	**27,375,733**
Impairment allowances	**165,379**	**84,351**	**715,358**	**-27,322**	**937,766**
Total net carrying amount	**21,951,336**	**3,079,949**	**1,253,223**	**153,459**	**26,437,967**

Financial and guarantee liabilities granted at amortised cost as at 31 December 2019

Internal rating	Stage 1	Stage 2	Stage 3	POCI	Total
Rating from 1 to 13	16,878,530	472,465	112,808	0	17,463,803
Rating from 14 to 17	573,033	90,662	37,516	0	701,211
Rating 18 and below	33,487	3,861	307,790	0	345,138
no rating	46,350,858	0	67,483	0	46,418,341
Total	**63,835,908**	**566,988**	**525,597**	**0**	**64,928,493**
Impairment allowances	**149,334**	**8,126**	**186,851**	**0**	**344,311**

Financial and guarantee liabilities granted at amortised cost as at 31 December 2018

Internal rating	Stage 1	Stage 2	Stage 3	POCI	Total
Rating from 1 to 13	46,855,101	617,591	1,171,070	0	48,643,762
Rating from 14 to 17	645,386	172,316	50,326	0	868,028
Rating 18 and below	43,685	7,585	14,128	0	65,398
no rating	5,105,496	4,266	104,933	0	5,214,695
Total	**52,649,668**	**801,758**	**1,340,457**	**0**	**54,791,883**
Impairment allowances	**139,754**	**12,684**	**59,246**	**0**	**211,684**

(in PLN thousand)

Loans and advances to customers obligatorily measured at fair value through profit or loss as at 31 December 2019					
Internal rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Rating from 1 to 13	124,870	0	0	0	124,870
Rating from 14 to 17	0	0	0	0	0
Rating 18 and below	0	0	0	0	0
no rating	0	0	0	0	0
Total carrying amount	**124,870**	**0**	**0**	**0**	**124,870**

Loans and advances to customers obligatorily measured at fair value through profit or loss as at 31 December 2018					
Internal rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Rating from 1 to 13	78,851	67,237	0	0	146,088
Rating from 14 to 17	0	0	0	0	0
Rating 18 and below	0	0	0	0	0
no rating	0	0	0	0	0
Total carrying amount	**78,851**	**67,237**	**0**	**0**	**146,088**

- Exposures to banks under deposits, current accounts and other receivables by internal class of risk

Exposures to banks under deposits, current accounts and other receivables at amortised cost by internal class of risk	31 Dec 2019	31 Dec 2018
I	179,019	1,044,622
II	589,221	943,518
III	0	564,829
IV	200,298	281,995
V	89,004	0
VI	0	21,499
no risk class*	5,263,285	4,394,315
Total gross carrying amount	**6,320,827**	**7,250,778**
Impairment allowances	**1,522**	**695**
Total net carrying amount	**6,319,305**	**7,250,083**

* nostro current accounts, other

- Exposure to debt instruments by external rating

Exposure to debt instruments at amortised cost by external rating as at 31 December 2019					
External rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
A / AA	0	0	0	0	0
BBB	2,852,244	0	0	0	2,852,244
BB	125,242	0	0	0	125,242
B	0	0	0	0	0
CCC	0	0	0	0	0
no rating	3,567,547	309,189	675,371	0	4,552,107
Total gross carrying amount	**6,545,033**	**309,189**	**675,371**	**0**	**7,529,593**
Impairment allowances	**30,231**	**8,648**	**92,780**	**0**	**131,659**
Total net carrying amount	**6,514,802**	**300,541**	**582,591**	**0**	**7,397,934**

Exposure to debt instruments at amortised cost by external rating as at 31 December 2018					
External rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
A / AA	0	0	0	0	0
BBB	1,676,236	0	0	0	1,676,236
BB	0	0	0	0	0
B	0	0	0	0	0
CCC	0	0	0	0	0
no rating	3,637,618	1,019,275	681,389	0	5,338,282
Total gross carrying amount	**5,313,854**	**1,019,275**	**681,389**	**0**	**7,014,518**
Impairment allowances	**11,405**	**15,547**	**105,796**	**0**	**132,748**
Total net carrying amount	**5,302,449**	**1,003,728**	**575,593**	**0**	**6,881,770**

(in PLN thousand)

Reverse repurchase agreements by external rating as at 31 December 2019

External rating	Stage 1	Stage 2	Stage 3	POCI	Total
A / AA	5,301,537	0	0	0	5,301,537
BBB	0	0	0	0	0
BB	0	0	0	0	0
B	0	0	0	0	0
CCC	0	0	0	0	0
no rating	0	0	0	0	0
Total	**5,301,537**	**0**	**0**	**0**	**5,301,537**

Reverse repurchase agreements by external rating as at 31 December 2018

External rating	Stage 1	Stage 2	Stage 3	POCI	Total
A / AA	938,888	0	0	0	938,888
BBB	695,103	0	0	0	695,103
BB	1,691,164	0	0	0	1,691,164
B	446,146	0	0	0	446,146
CCC	50,324	0	0	0	50,324
no rating	53,035	0	0	0	53,035
Total	**3,874,660**	**0**	**0**	**0**	**3,874,660**

Exposure to debt instruments at fair value through other comprehensive income by external rating as at 31 December 2019

External rating	Stage 1	Stage 2	Stage 3	POCI	Total
A / AA	10,322,157	0	0	0	10,322,157
BBB	553,274	0	0	0	553,274
BB	127,562	0	0	0	127,562
B	0	0	0	0	0
CCC	0	0	0	0	0
no rating	8,082,041	36,281	0	0	8,118,322
Total carrying amount	**19,085,034**	**36,281**	**0**	**0**	**19,121,315**
Impairment allowances*	**6,608**	**256**	**0**	**0**	**6,864**

* The impairment allowance on debt instruments at fair value through other comprehensive income is recognised under "Revaluation reserve" and does not decrease the relevant carrying amount.

Exposure to debt instruments at fair value through other comprehensive income by external rating as at 31 December 2018

External rating	Stage 1	Stage 2	Stage 3	POCI	Total
A / AA	636,433	0	0	0	636,433
BBB	11,811,553	0	0	0	11,811,553
BB	207,170	0	0	0	207,170
B	0	0	0	0	0
CCC	0	0	0	0	0
no rating	2,063,564	34,736	1,220	0	2,099,520
Total carrying amount	**14,718,720**	**34,736**	**1,220**	**0**	**14,754,676**
Impairment allowances*	**4,004**	**412**	**216**	**0**	**4,632**

* The impairment allowance on debt instruments at fair value through other comprehensive income is recognised under "Revaluation reserve" and does not decrease the relevant carrying amount.

Derivatives by external rating as at 31 December 2019

External rating	Banks	Other financial institutions	Non-financial entities	Total
A+	203,502	0	0	203,502
A	106,170	0	0	106,170
A-	42,136	0	0	42,136
AA-	11,872	0	0	11,872
BBB+	44,192	0	0	44,192
BB+	0	0	18,975	18,975
no rating	0	99,427	48,633	148,060
Total carrying amount	**407,872**	**99,427**	**67,608**	**574,907**

(in PLN thousand)

Derivatives by external rating as at 31 December 2018				
External rating	Banks	Other financial institutions	Non-financial entities	Total
A+	121,668	0	0	121,668
A	226,109	0	0	226,109
A-	40,054	477,508	0	517,562
BBB+	54,281	0	0	54,281
BB+	0	0	0	0
no rating	0	17,094	42,149	59,243
Total carrying amount	**442,112**	**494,602**	**42,149**	**978,863**

Exposure to debt instruments by external rating	31 Dec 2019	31 Dec 2018
Debt instruments held for trading		
A / AA	1,666	0
BBB	0	617
BB	0	0
B	0	0
CCC	0	0
Total	**1,666**	**617**
Debt instruments at fair value through profit or loss		
A / AA	87,051	42,219
BBB	86,084	174,575
BB	0	0
B	0	0
CCC	0	0
no rating	54,036	52,508
Total	**227,171**	**269,302**

45.11. CONCENTRATION RISK ANALYSIS

Concentration risk is the risk resulting from exposure with respect to individual entity or entities with capital and organisational relations, entities operating in the same industry, economy sector, entities operating in the same geographical region, using the same type of collateral or collateral offered by the same provider, in the same currency, with respect to the entities referred to in Article 79.1 of the Banking Law, which may have a material impact on the stability and security of the Bank's operations in case of default by such individual entity, by entities with capital and organisational links or by groups of entities where the probability of a default depends on shared factors.

The Bank controls the level of credit risk exposure:

- jointly and broken down into own activities as well as related to the service of fund created, entrusted or transferred on the basis of separate acts,
- for exposure concentration to one entity and/or entities related by capital or organisation,
- by large exposures,
- by individual industries,
- separately by mortgage-backed exposures,
- by selected segments and products,
- by currency or currency-indexed transactions,
- by off-balance-sheet liabilities granted by the Bank (guarantees, sureties, and letters of credit).

Risk of concentration of large exposures

The Bank applies regulatory concentration limits for large exposures resulting from the CRR, Banking Law and specific regulations included in the Act on BGK. These limits are additionally reduced by the resolution of the Bank's Management Board on the maximum level of exposure to an individual customer or group of related customers as at the time of making a funding decision.

Utilisation of the concentration limit is assessed and monitored on a daily basis. If the concentration limit is exceeded, all parties involved in the lending and investment process are immediately notified of the fact.

The Bank’s adopted safe level of exposure to a group of related entities or to a single customer was not exceeded as at the end of 2019. As at 31 December 2019, large exposure concentration risk for the Bank’s largest exposure (after deductions) to a single entity was 19.5% of the Bank’s eligible capital (as at 31 December 2018: 20.6%).

(in PLN thousand)

Bank's exposure to the 20 largest non-bank customers				
	31 Dec 2019		31 Dec 2018	
	Exposure*	Share in the loan portfolio	Exposure*	Share in the loan portfolio
1.	3,480,357	**8.0%**	3,759,529	**10.2%**
2.	3,305,662	**7.6%**	3,426,040	**9.3%**
3.	3,179,245	**7.3%**	2,913,612	**7.9%**
4.	2,969,142	**6.8%**	2,019,305	**5.5%**
5.	1,771,440	**4.1%**	1,768,847	**4.8%**
6.	1,529,322	**3.5%**	1,633,662	**4.4%**
7.	1,480,064	**3.4%**	1,605,879	**4.3%**
8.	1,279,648	**2.9%**	1,588,740	**4.3%**
9.	1,059,899	**2.4%**	1,528,263	**4.1%**
10.	1,002,002	**2.3%**	1,392,019	**3.8%**
11.	863,624	**2.0%**	1,357,605	**3.7%**
12.	662,046	**1.5%**	1,062,884	**2.9%**
13.	596,983	**1.4%**	1,061,764	**2.9%**
14.	550,592	**1.3%**	863,749	**2.3%**
15.	549,617	**1.3%**	598,587	**1.6%**
16.	521,972	**1.2%**	569,842	**1.5%**
17.	515,131	**1.2%**	551,705	**1.5%**
18.	462,793	**1.1%**	549,784	**1.5%**
19.	409,937	**0.9%**	523,713	**1.4%**
20.	390,063	**0.9%**	467,033	**1.3%**
Total	**26,579,539**	**61.1%**	**29,242,562**	**79.2%**

* Includes balance-sheet and off-balance-sheet credit exposure: loans, advances, purchased debts, promissory note discount, used guarantees, debt securities, and derivative transaction limits. The amount of exposure is calculated for the purposes of external limits (large exposure concentration limits) without deductions.

As at 31 December 2019, large exposure concentration risk for the Bank's largest exposure (after deductions) to a group of associated clients was 30.6% of the Bank's eligible capital (as at 31 December 2018: 27.5%).

Bank's exposure to five largest non-bank groups				
	31 Dec 2019		31 Dec 2018	
	Exposure*	Share in the loan portfolio	Exposure*	Share in the loan portfolio
1.	4,829,388	**11.1%**	5,004,250	**13.5%**
2.	4,212,677	**9.7%**	4,131,989	**11.2%**
3.	4,131,507	**9.5%**	3,808,644	**10.3%**
4.	3,480,357	**8.0%**	3,136,013	**8.5%**
5.	2,969,142	**6.8%**	2,019,305	**5.5%**
Total	**19,623,071**	**45.1%**	**18,100,201**	**49.0%**

* Includes balance-sheet and off-balance-sheet credit exposure: loans, advances, purchased debts, promissory note discount, guarantees, debt securities, and derivative transaction limits. The amount of exposure is calculated for the purposes of external limits (concentration limits) without deductions.

Geographical concentration risk

Concentration of exposures from the perspective of geographical areas is monitored based on the existing division into the Bank's field units (regional units) and by province. The Bank has regional units in all province capitals.

The Bank's loan portfolio is highly concentrated in geographical terms – more than 70% of the loan portfolio is concentrated in five provinces, which follows from the Bank's exposure to large groups of entities. As a result, so far the Bank has had no need to set geographical limits.

Industry concentration risk

To ensure that the loan portfolio is secure and effective, the Bank manages industry concentration risk using a system of internal industry limits. Attribution of a given customer to an industry limit is based on customer classification into a given industry made and reviewed by the Bank's employee based on information on the type of the customer's business activity.

Concentration of exposures from the perspective of industries is monitored on a daily basis pursuant to the internal procedures for the internal industry limits. If the limit is used in at least 90%, relevant measures are taken to prevent exceeding a given limit.

The used tools and methods that support the monitoring of credit exposures and customers allow to react quickly if the quality of the portfolio or individual credit exposures deteriorate, and take remedial measures.

(in PLN thousand)

Concentration of exposures in national economy sectors (balance sheet exposure) *	**31 Dec 2019**		**31 Dec 2018**	
Branch of industry	**Amount of exposure**	**Total Share in exposure**	**Amount of exposure**	**Total share in exposure**
Public administration and defence, compulsory social security	10,204,048	**23.5%**	8,414,649	**22.8%**
Construction	5,184,181	**11.9%**	4,936,582	**13.4%**
Water supply, sewerage, waste management, and remediation activities	572,003	**1.3%**	564,016	**1.5%**
Financial and insurance activities	1,884,863	**4.3%**	1,058,897	**2.9%**
Professional, research, and technical activities	2,717,160	**6.3%**	2,541,043	**6.9%**
Administrative and support services activities	21,055	**0.0%**	33,131	**0.1%**
Education	86,525	**0.2%**	43,068	**0.1%**
Mining and extraction	2,825,011	**6.5%**	1,692,266	**4.6%**
Wholesale and retail trade	530,473	**1.2%**	438,707	**1.2%**
Hotels and restaurants	213,188	**0.5%**	217,223	**0.6%**
Information and communication	687,827	**1.7%**	234,347	**0.6%**
Property management and administration	1,547,369	**3.6%**	1,488,396	**4.0%**
Healthcare and social security	1,247,525	**2.9%**	1,033,470	**2.8%**
Other services, cultural, entertainment, and recreation activities	186,544	**0.4%**	114,437	**0.3%**
Other (natural persons, no Polish Classification of Activity (PKD) number)	2,168,650	**5.0%**	1,905,975	**5.2%**
Industrial processing	4,147,082	**9.5%**	4,041,672	**10.9%**
Agriculture, forestry, hunting, and fishery	34,319	**0.1%**	15,241	**0.0%**
Transport, storage	3,819,163	**8.8%**	4,184,361	**11.3%**
Production and supply of electricity, gas and steam	5,354,674	**12.3%**	3,974,315	**10.8%**
Total	**43,431,660**	**100.0%**	**36,931,796**	**100.0%**

* Includes balance-sheet and off-balance-sheet credit exposure: loans, advances, purchased debts, promissory note discount, guarantees, debt securities, and derivative transaction limits. The amount of exposure is calculated for the purposes of external limits (large exposure concentration limits) without deductions.

The Bank applies industry limits to mitigate the risk related to financing customers operating in selected industries with a high level of credit risk and to avoid excessive levels of industry concentration.

The portfolio is dominated by public administration due to BGK's close cooperation with the government and local governments. Another relatively large groups of exposures are the electricity, gas and water supply industry, construction, industrial processing and transportation, and storage industries, mainly due to the fact that the Bank engages in funding ventures which are strategic from the point of view of the State Treasury, including in the sectors of energy, fuel and chemistry, and transport. Such ventures are implemented in the form of large investment projects.

Risk of currency concentration in the loan portfolio

The Bank monitors the currency structure of its loan portfolio and risk associated with individual portfolios on a regular basis. The prevailing currency in the portfolio is PLN (approximately 83.2%). Exposures in EUR and USD account for an aggregate of approximately 16.2%. Exposures in CHF account for an insignificant portion of the Bank's loan portfolio and chiefly include receivables from retail customers.

(in PLN thousand)

Credit risk concentration by currency	31 Dec 2019	31 Dec 2018
PLN	83.2%	82.5%
Foreign currencies, including:	16.8%	17.5%
- EUR	9.7%	11.4%
- USD	6.5%	5.0%
- CHF	0.1%	0.1%
- other	0.5%	1.0%
Total	**100.0%**	**100.0%**

45.12. COLLATERALS AND OTHER FORMS OF CREDIT RISK MITIGATION

The main instrument used to reduce the credit risk is legal protection of the Bank's receivables. The Bank applies an internal procedure for the establishment and evaluation of legal collaterals for receivables as at the inception of the transactions bearing credit risk and for monitoring the collateral during the transaction's life.

The Bank uses the following instruments and methods to limit or reduce the credit risk to acceptable levels:
- risk diversification,
- risk protection,
- risk sharing,
- risk compensation.

To mitigate the credit risk, when calculating the risk-weighted exposures in the Bank's portfolio, the Bank accounts for the credit protection, in line with the internal procedures on legal protection of the Bank's receivables.

Collateral policy

The amount and type of collateral depends on the evaluation of the credit risk related to an individual counterparty. The Bank follows specific guidelines on the acceptability and evaluation of each type of collateral.

Main types of collaterals:
- for securities lending and reverse repo – cash and securities;
- for commercial loans – collateral in the form of mortgages and registered pledges on movables.

The Bank monitors the market value of collateral for each lending transaction and, if necessary, it demands additional collateral in line with the loan agreement.

Pursuant to the adopted policy, the Bank manages the seized collateral in an orderly manner. Any proceeds are used to reduce or repay overdue receivables. The Bank does not use seized collateral for business purposes.

The basis for calculating the recoverable amount of collaterals is the appraisal value verified by the Bank using the indicators adjusting the value of collaterals. Moreover, the fulfilment of formal and legal conditions for collateral acceptance is verified each time, as well as whether it is funded and liquid, and also its correlation to the economic and financial standing of the debtor. In the case of unfunded collaterals, the economic and financial standing of the collateral issuer is additionally examined.

The Bank monitors the legal collaterals of lending transactions on a periodical basis.

Collaterals and other forms of credit risk mitigation		
Fair value of the collateral	**31 Dec 2019**	**31 Dec 2018**
Mortgages	38,703,081	35,976,822
Pledges	3,059,299	2,224,085
Guarantees and sureties, including:	7,536,403	8,493,415
- bank guarantees	2,106,911	613,806
- government guarantees	3,974,308	6,804,606
- other guarantees and sureties	1,455,184	1,075,003
Cash deposits	224,227	152,974
Other	25,390	14,346
Total	**49,548,400**	**46,861,642**

Credit exposures are most often secured (at fair value) by mortgages, guarantees and sureties. Credit exposures secured by guarantees provided by the State Treasury and local government units (designated as other guarantees and sureties) ensure the maximum risk reduction. Primarily, local government units offer sureties for exposures of affiliated Social Housing Associations, hospitals, and municipal companies.

For credit exposures fully secured by deposits of specific amounts made in the Bank's account (pursuant to Article 102 of the Banking Law) the Bank does not recognise any allowances for expected credit losses. The gross carrying amount of such exposures as at 31 December 2019 was PLN 12,734 thousand.

(in PLN thousand)

Gross carrying amount of financial instruments for which the Bank has not recognised a loss allowance because of the collateral as at 31 December 2019

Internal rating	Stage 1	Stage 2	Stage 3	Total
Rating from 1 to 13	4,228	0	0	4,228
Rating from 14 to 17	0	0	0	0
Rating 18 and below	8,506	0	0	8,506
no rating	0	0	0	0
Total carrying amount	**12,734**	**0**	**0**	**12,734**

45.13. FORBEARANCE PRACTICES

The Bank applies the definition of forbearance to credit exposure which has been addressed with forbearance measures. The restructuring measures comprise facilities offered by the Bank to the borrower who experiences or will soon begin to experience difficulties with repayment of financial liabilities (financial distress).

Restructuring measures comprise the following:

- change in the terms and conditions of a contract underlying the credit exposure which has been classified as default before
  the change or which would have been classified as default, if it had not been changed,
- change in the terms and conditions of a contract underlying the credit exposure consisting in a full or partial write-off on the exposure,
- Bank's approval for the use of embedded restructuring clauses by a default customer or who would have been considered as default if such clauses had not been applied,
- repayment of the principal amount or interest on another credit exposure at the Bank by the customer, if the exposure was in default at the time or around the time when the Bank applied the facility in the form of additional funding or would have been classified as default if the facility had not been applied,
- change leading to repayments resulting from utilisation of the collateral, if such change qualifies as a facility.

It is considered that the exposures are no longer forborne, if all the conditions presented below have been met:

- a credit exposure is no longer considered as default when it has been removed from the default category,
- following an analysis of the financial condition of the customer which revealed that the contract no longer qualifies as default,
- after at least two-year follow-up period of the date when the restructured exposure was classified as non-default (conditional period),
- regular payments of interest and principal amount were made for at least 12 out of 24 months of the follow-up period,
- as at the end of the quarantine period, none of the exposures with respect to the customer was overdue by more than 30 days.

Forborne exposures as at 31 December 2019

Loans and advances to customers at amortised cost, including:	Stage 1	Stage 2	Stage 3	Total
Gross forborne exposures	1	0	440,765	**440,766**
- non-financial sector	1	0	377,597	**377,598**
- public sector	0	0	63,168	**63,168**
Impairment allowances	1	0	90,613	**90,614**
Net forborne exposures	**0**	**0**	**350,152**	**350,152**
Debt instruments at amortised cost				
Debt instruments at amortised cost	0	0	213,379	**213,379**
Impairment allowances	0	0	63,794	**63,794**
Net forborne exposures	**0**	**0**	**149,585**	**149,585**

(in PLN thousand)

Forborne exposures as at 31 December 2018				
Loans and advances to customers at amortised cost, including*:	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross forborne exposures	22,700	0	396,014	**418,714**
- non-financial sector	19,629	0	306,934	**326,563**
- public sector	3,071	0	89,080	**92,151**
Impairment allowances	281	0	98,949	**99,230**
Net forborne exposures	**22,419**	**0**	**297,065**	**319,484**
Debt instruments at amortised cost				
Debt instruments at amortised cost	37,000	0	220,924	**257,924**
Impairment allowances	60	0	75,305	**75,365**
Net forborne exposures	**36,940**	**0**	**145,619**	**182,559**

* In 2018, credit exposures of PLN 153,459 thousand were incorrectly presented as forborne exposures (POCI).

The largest group of forborne exposures comprises transactions with clients from the Enterprise segment. It should be noted that the ratio of receivables past due by more than 90 days to total forborne exposures is low, at 2.2% as at 31 December 2019.

46. LIQUIDITY RISK MANAGEMENT

Definition

Liquidity risk is a defined threat of losing the ability to pay liabilities in a timely manner as a result of unfavourable changes in assets and liabilities and equity, off-balance-sheet transactions, maturity mismatch of current cash flows, and possible losses resulting from the foregoing.

The liquidity risk is also dealt with in the context of:

- market (product) liquidity risk understood as a threat of losing the ability to exchange specific products on the market for cash, resulting in the need to incur financial losses on these products,
- funding risk understood as a threat of shortage of stable funding sources in mid- and long-term, resulting in actual or potential risk of default by the Bank in regard to financial liabilities such as payments and collaterals at their maturity in mid- and long-term, either in whole or involving unacceptable funding costs to be incurred,
- liquidity concentration risk understood as a threat of default in current liabilities due to dependence (lack of diversification) or overexposure to one entity or associate entities,
- liquidity risk in individual currencies in which the Bank carries out its activities, understood as inability to fulfil the Bank's liabilities in a given currency due to limitations in convertibility of currencies.

Management purposes

The purpose of liquidity risk management is to:
- ensure and maintain the Bank's ability to meet obligations related to both current and planned future liabilities, including costs of liquidity and return on equity,
- prevent stress conditions,
- define solutions which will enable the Bank to survive a potential crisis (contingency planning).

Identification and measurement

The Bank identifies internal and external sources of liquidity risk.

The adopted Bank's liquidity risk measurement system includes the following methods:
- liquidity ratios (both regulatory and internal), contractual and market-based liquidity gap analysis, fund stability analyses, daily monitoring of the deposit base,
- liquidity stress tests covering scenario analyses, sensitivity analyses, and reversed tests.

Control

In order to reduce risk and secure liquidity, the Bank applies the following measures:
- transactions on the money market, including deposit transactions, reverse repo, repo, NBP money market bills, Treasury bills, bonds, and other instruments,
- maintaining a portfolio of liquid securities,
- daily monitoring of the money balance and ensuring financing possibilities from the NBP,
- financing lines securing liquidity of the Bank,
- own bond issuances and deposit level management to optimise the structure of the sources of funding,
- emergency plans in case of emergency situations of reduced or endangered liquidity.

Liquidity risk management involves the operation of a system of liquidity risk limits adjusted to the scale and complexity of the Bank's operations (external and internal limits, in particular an acceptable level of liquidity risk). Apart from the system of limits, threshold values and analysis, thresholds are applied, i.e. a group of early warning indicators which make it possible to identify adverse trends that may affect the Bank's liquidity in a timely manner.

(in PLN thousand)

Additionally, in accordance with Article 3.3 of the Act on Bank Gospodarstwa Krajowego, the minister competent for public finance shall provide funds to meet liquidity standards.

Monitoring

The risk monitoring process involves a cyclical review of the values of limited parameters and analysis of the limit usage. Moreover, concentration of financing sources and impact of any increase in deposits on the Bank's liquidity are also analysed.

In the area of liquidity risk, cyclical forecasts of liquidity risk level are also made. The forecasts take into account primarily the levels of selected liquidity risk measures in normal conditions of the Bank's operations and in selected stress test scenarios.

Reporting

The Bank prepares current reports on liquidity risk presenting utilisation of regulatory liquidity limits and internal liquidity limits, balance of deposit at the Bank, external funds stability analysis, results of stress tests, and periodic simulations of liquidity measures and long-term liquidity analysis.

Quantitative information

In 2019, regulatory liquidity measurements defined in the PFSA's resolution No. 386/2008 of 17 December 2008 on defining liquidity norms binding for banks (Official Journal of the PFSA No. 8, item 40, as amended) and in Commission Delegated Regulation No. 2015/61 (EU) of 10 October 2014 to supplement Regulation (EU) No. 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions (OJ L 11, 17.01.2015, p. 1) and internal liquidity standards were not breached.

Regulatory liquidity measures

Regulatory liquidity measures are presented in the table below.

Item	Limit	Including flow funds		Additional information – excluding flow funds	
		31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
M3 – own funds to non-liquid assets	1.00	2.52	2.55	2.52	2.54
M4 – own funds and stable external funds to non-liquid and limited-liquidity assets	1.00	1.25	1.27	1.51	1.56
LCR – liquidity coverage ratio	100%*	193%	241%	228%	310%

* the indicators are specified on an individual basis as the CRR does not require prudential consolidation.

The change in the liquidity measures was mainly driven by the fact that long-term funding sources grew slower than the Bank's lending activities and equity investments.

Liquidity gap

The Bank's market-based liquidity gap is presented below. In particular, the following are adjusted to their market values: deposit values (on the basis of estimated core deposits), liquid securities (presented in recovery values achievable in specific time periods), and financial and guarantee off-balance-sheet liabilities granted (in the scope of estimated amounts and deadlines).

(in PLN thousand)

The Bank's market-based liquidity gap

		up to 1 m	1 m - 3 m	3 m - 6 m	6 months to 1 year	1 – 5 years	more than 5 years
31 Dec 2019	Gap	26,244,094	-6,925,359	-3,020,347	-2,074,963	-27,672,658	3,040,732
	Aggregate gap	**26,244,094**	**19,318,735**	**16,298,388**	**14,223,425**	**-13,449,233**	**-10,408,501**
31 Dec 2018	Gap	25,714,435	-4,062,053	-2,439,211	-2,845,753	-25,086,191	-2,456,260
	Aggregate gap	**25,714,435**	**21,652,382**	**19,213,171**	**16,367,418**	**-8,718,773**	**-11,175,033**

Sources of funding

The Bank has diversified sources of funding, including deposits from customers, funds from issues of own bonds, and loans granted by international financial institutions.

Liabilities structure by contractual maturity is presented below. The amounts include cash flows from the principal amount and interest (if applicable) for the entire financing period. For off-balance-sheet liabilities, exposures are presented by contractual maturity.

Liabilities of the Bank as at 31 December 2019

		up to 1 m	1 m - 3 m	3 m - 6 m	6 months to 1 year	1 – 5 years	more than 5 years	Total
Balance sheet liabilities	Amounts due to banks	2,459,889	90,241	148,388	242,525	1,730,145	1,361,419	**6,032,607**
	Liabilities to customers	58,686,890	5,770,661	1,879,939	874,566	119,796	0	**67,331,852**
	Own issues	5,115	1,193,971	1,239,137	52,997	5,094,496	0	**7,585,716**
	Lease liabilities	2,814	2,709	3,518	5,954	22,166	5,938	**43,099**
	Total	**61,154,708**	**7,057,582**	**3,270,982**	**1,176,042**	**6,966,603**	**1,367,357**	**80,993,274**
Off-balance-sheet liabilities	Financing commitments	40,198,902	1,089,018	195,281	967,339	4,027,507	3,211,164	**49,689,211**
	Guarantee liabilities	5,415,340	696,911	337,540	3,514,274	4,567,029	708,188	**15,239,282**
	Total	**45,614,242**	**1,785,929**	**532,821**	**4,481,613**	**8,594,536**	**3,919,352**	**64,928,493**

Liabilities of the Bank as at 31 December 2018

		up to 1 m	1 m - 3 m	3 m - 6 m	6 months to 1 year	1 – 5 years	more than 5 years	Total
Balance sheet liabilities	Amounts due to banks	2,763,996	117,229	143,431	246,360	1,792,908	933,721	**5,997,645**
	Liabilities to customers	44,664,850	4,889,134	1,180,331	342,724	4,353	0	**51,081,392**
	Own issues	5,090	1,419,393	24,157	1,056,157	3,424,472	0	**5,929,269**
	Total	**47,433,936**	**6,425,756**	**1,347,919**	**1,645,241**	**5,221,733**	**933,721**	**63,008,306**
Off-balance-sheet liabilities	Financing commitments	31,758,070	159,159	757,062	784,055	2,854,561	3,838,568	**40,151,475**
	Guarantee liabilities	3,915,744	1,149,438	132,965	2,743,492	5,079,552	1,619,217	**14,640,408**
	Total	**35,673,814**	**1,308,597**	**890,027**	**3,527,547**	**7,934,113**	**5,457,785**	**54,791,883**

Cash flows from derivatives

Derivatives used by the Bank include IRSs, FRAs, FX Swaps, FX Forwards, CIRSs and options.

Undiscounted cash flows under derivative contracts as at 31 December 2019 and 31 December 2018 are presented below.

(in PLN thousand)

Cash flows from derivatives

		up to 1 m	1 m - 3 m	3 m - 6 m	6 months to 1 year	1 – 5 years	more than 5 years	Total
31 Dec 2019	Inflows	4,149,908	2,606,435	6,915,689	2,309,076	10,367,391	13,827,338	**40,175,837**
	Outflows	-4,105,891	-2,597,553	-6,931,610	-2,332,288	-10,365,679	-13,833,009	**-40,166,030**
31 Dec 2018	Inflows	12,557,181	2,959,686	465,746	4,228,311	10,282,443	17,855,142	**48,348,509**
	Outflows	-12,543,314	-2,965,365	-629,928	-4,647,008	-10,275,885	-17,857,498	**-48,918,998**

47. Market risk management

47.1. Interest rate risk management

Definition

Interest rate risk is defined as a threat of possible deterioration in the value of the Bank's financial instruments portfolio or Bank's financial result due to adverse interest rate fluctuations.

Management purposes

Interest rate risk management aims to reduce the risk of losing part of the interest income as a result of a change in market interest rates and the risk of an unfavourable change in the market value of the interest-bearing financial instruments held by the Bank by making relevant changes in the structure of the portfolio.

Identification and measurement

The Bank identifies internal and external sources of interest rate risk.

The measurement of interest rate risk at BGK includes, among other things: net present value (NPV), duration, measures of sensitivity of financial instrument prices on changes in interest rates (basis point value – BPV, economic value of equity – EVE), net interest income sensitivity to changes in interest rates (NII), repricing gap, value at risk (VaR), and stress tests. The Bank also prepares lists of financial instruments using a given reference rate as a benchmark (basis risk) and sets levels of termination of term deposits and loans prepayments (customer option risk).

VaR is calculated for the assumed 99% confidence level and using a range of market data from 251 business days. The model is back-tested by comparing the sensitivity values against remeasurement and actual results.

Control

An important element of interest rate risk management is the Bank's system of limits, which are subject to risk appetite determined by the Supervisory Board. The following are applied: BPV limit for banking and trading book, limits and threshold values for interest income risk for the banking book, and loss limits. The Bank applies interest rate risk management procedures.

Monitoring

Risk monitoring process primarily involves cyclical review of risk measure levels and analysis of the use of limits and threshold values.

Reporting

Reports are submitted on a daily, monthly, quarterly, semi-annual and annual basis – each report is addressed to recipients at an appropriate level.

Quantitative information

Key market risk measures are presented below. The measures do not include flow funds.

(in PLN thousand)

The table below presents data on BPV of the Bank's banking and trading book as well as on the sensitivity of net interest income and economic value of the banking book to interest rate change by 2 p.p.

Selected measures of interest rate risk		31 Dec 2019	31 Dec 2018
BPV	banking book	-1,432	-1,382
	trading book	-22	-13
Net interest income sensitivity to changes in interest rates by:	-2 p.p.	-72,752	-152,901
	+2 p.p.	63,481	142,995
Sensitivity of economic value of the banking book to interest rate change by:	-2 p.p.	416,938	374,890
	+2 p.p.	-416,938	-374,890

Relative to the end of the previous year, the net interest income sensitivity to interest rate change dropped by PLN 80 million as a result of an increase in the current account balance. Relative to the end of the previous year, BPV and sensitivity of economic value of the banking book to interest rate change increased as a result of a larger PLN-denominated T-bond portfolio.

The table below presents the repricing gap for the Bank.

Repricing gap for the Bank

		up to 1 m	1 m - 3 m	3 m - 6 m	6 months to 1 year	1 – 5 years	more than 5 years	Total
31 Dec 2019	Gap	1,273,586	-2,035,102	9,188,044	-565,539	7,273,786	343,191	**15,477,966**
	Aggregate gap	**1,273,586**	**-761,516**	**8,426,528**	**7,860,989**	**15,134,775**	**15,477,966**	
31 Dec 2018	Gap	5,225,064	-2,986,796	8,498,151	4,910,156	2,484,921	43,474	**18,174,970**
	Aggregate gap	**5,225,064**	**2,238,268**	**10,736,419**	**15,646,575**	**18,131,496**	**18,174,970**	

Lower aggregate gap up to 1 month compared to the end of the previous year was caused by a higher current account balance.

The table below presents VaR for interest rate risk of the trading book at 99% confidence level in a horizon of 1 business day.

VaR for interest rate risk of the trading book	Date	As at	Average value*	Minimum value*	Maximum value*
VaR 1D 99%	31 Dec 2019	4,679	3,331	2,471	4,966
	31 Dec 2018	2,486	7,025	2,486	8,737

* Average, minimum and maximum value in the reporting period ending at the date specified.

Relative to the end of the previous period, as at the end of 2019 VaR increased due to higher volatility of interest rates in 2019.

47.2. FOREIGN EXCHANGE RISK MANAGEMENT

Definition

Foreign exchange risk is defined as a threat of possible deterioration in the value of the Bank's financial instruments portfolio or Bank's financial result due to adverse changes in currency exchange rates.

Management purposes

The purpose of foreign exchange risk management is to reduce the risk of losses as a result of changes in market exchange rates by management of the Bank's currency position.

Identification and measurement

The Bank identifies internal and external sources of foreign exchange risk.

The measurement of foreign exchange risk at BGK covers, among other things: currency positions, value at risk (VaR), and stress tests.

VaR is calculated for the assumed 99% confidence level and using a range of market data from 251 business days. The model is back-tested by comparing the sensitivity values against remeasurement and actual results.

(in PLN thousand)

Control

The Bank applies the following currency position limits: the Bank's total currency position limit and a currency position limit for the trading book – both are subject to risk appetite determined by the Supervisory Board. Loss limits are also applied. The Bank applies foreign exchange risk management procedures.

Monitoring

Risk monitoring process involves, *inter alia*, cyclical review of risk measure levels and analysis of the limit usage.

Reporting

Reports are submitted on a daily, monthly, quarterly, semi-annual and annual basis – each report is addressed to recipients at an appropriate level.

Quantitative information

The table below presents the Bank's total currency position and sensitivity of securities at FVOCI to interest rate change by 20%.

Selected foreign exchange risk measures of the Bank	31 Dec 2019	31 Dec 2018
Total foreign currency position	26,723	85,319
Sensitivity of securities at FVOCI to interest rate change by 20%	-227,433	-274,922

The table below presents VaR for foreign exchange risk at 99% confidence level in a horizon of 1 business day.

VaR for foreign exchange risk of the Bank	Date	As at	Average value*	Minimum value*	Maximum value*
VaR 1D 99%	31 Dec 2019	156	719	65	1,425
	31 Dec 2018	922	831	461	1,123

* Average, minimum and maximum value in the reporting period ending at the date specified.

Compared to the previous year, as at the end of 2019 VaR dropped as a result of a decrease in total currency position and lower volatility of EUR, USD and CHF exchange rates.

The tables below present the Bank's exposure to foreign exchange risk as at 31 December 2019 and 31 December 2018. The tables below present the Bank's assets and liabilities by carrying amount and by currency.

Currency structure of assets	Currency translation to PLN as at 31 December 2019					
	PLN	EUR	USD	CHF	Other	Total
Cash and balances with the Central Bank	22,725,116	4,260	0	0	0	22,729,376
Amounts due from banks	1,072,714	4,734,450	997,874	6,828	34,199	6,846,065
Financial assets held for trading	566,534	5,907	133	0	3,999	576,573
Financial assets at fair value through profit or loss	65,693	755,505	0	0	0	821,198
Financial assets at fair value through other comprehensive income	18,922,388	961,116	0	188,822	0	20,072,326
Loans and advances to customers	25,686,271	3,007,266	2,003,220	30,213	160,024	30,886,994
Debt instruments at amortised cost	5,901,461	1,276,515	219,958	0	0	7,397,934
Reverse repurchase agreements	5,301,537	0	0	0	0	5,301,537
Investments in subsidiaries	1,597,722	222,719	0	0	0	1,820,441
Investments in associates	3,568,874	8,189	0	0	0	3,577,063
Intangible assets	54,962	0	0	0	0	54,962
Property, plant and equipment	132,356	0	0	0	0	132,356
Right-of-use assets	45,843	0	0	0	0	45,843
Investment property	13,541	0	0	0	0	13,541
Deferred tax assets	236,554	0	0	0	0	236,554
Other assets	57,154	34,224	0	1	108	91,487
Total assets	**85,948,720**	**11,010,151**	**3,221,185**	**225,864**	**198,330**	**100,604,250**

(in PLN thousand)

Currency structure of liabilities	Currency translation to PLN as at 31 December 2019					
	PLN	EUR	USD	CHF	Other	Total
Amounts due to banks	2,897,487	1,143,755	78,339	0	65	4,119,646
Financial liabilities held for trading	601,969	6,235	1,260	0	1,866	611,330
Liabilities to customers	55,749,620	3,797,481	259,789	7,806	6,566	59,821,262
Liabilities due to repurchase agreements	9,020,088	93,300	0	0	0	9,113,388
Debt securities issued	7,251,523	0	0	0	0	7,251,523
Lease liabilities	38,497	4,582	20	0	0	43,099
Other liabilities	411,030	35,690	1	19	108	446,848
Current tax liabilities	80,158	0	0	0	0	80,158
Provisions	415,019	12,842	11,196	0	2,733	441,790
Total liabilities	**76,465,391**	**5,093,885**	**350,605**	**7,825**	**11,338**	**81,929,044**

Currency structure of assets	Currency translation to PLN as at 31 December 2018					
	PLN	EUR	USD	CHF	Other	Total
Cash and balances with the Central Bank	16,664,538	4,242	50	34	31	**16,668,895**
Amounts due from banks	2,070,469	4,977,799	782,009	1,703	72,447	**7,904,427**
Financial assets held for trading	966,534	8,295	3,013	0	1,638	**979,480**
Financial assets at fair value through profit or loss	119,833	620,308	0	0	0	**740,141**
Financial assets at fair value through other comprehensive income	14,447,729	1,061,908	324,566	0	0	**15,834,203**
Loans and advances to customers	21,389,706	2,951,079	1,306,056	33,561	249,309	**25,929,711**
Debt instruments at amortised cost	5,354,140	1,289,133	238,497	0	0	**6,881,770**
Reverse repurchase agreements	3,874,660	0	0	0	0	**3,874,660**
Investments in subsidiaries	1,586,976	224,890	0	0	0	**1,811,866**
Investments in associates	3,744,884	0	0	0	0	**3,744,884**
Intangible assets	49,048	0	0	0	0	**49,048**
Property, plant and equipment	138,862	0	0	0	0	**138,862**
Investment property	13,104	0	0	0	0	**13,104**
Deferred tax assets	130,118	0	0	0	0	**130,118**
Other assets	44,546	718	9	1	0	**45,274**
Total assets	**70,595,147**	**11,138,372**	**2,654,200**	**35,299**	**323,425**	**84,746,443**

Currency structure of liabilities	Currency translation to PLN as at 31 December 2018					
	PLN	EUR	USD	CHF	Other	Total
Amounts due to banks	2,806,762	836,424	211,119	0	24,916	**3,879,221**
Financial liabilities held for trading	1,566,762	6,962	2,691	0	580	**1,576,995**
Liabilities to customers	43,598,371	3,922,567	198,085	5,254	44,981	**47,769,258**
Liabilities due to repurchase agreements	5,109,170	0	104,881	0	0	**5,214,051**
Debt securities issued	5,786,636	0	0	0	0	**5,786,636**
Other liabilities	960,916	2,393	797	0	128	**964,234**
Current tax liabilities	30,507	0	0	0	0	**30,507**
Provisions	379,690	11,532	3,303	8	3,668	**398,201**
Total liabilities	**60,238,814**	**4,779,878**	**520,876**	**5,262**	**74,273**	**65,619,103**

(in PLN thousand)

47.3. EQUITY PRICE RISK MANAGEMENT

Definition

The equity price risk is defined as a threat of possible deterioration in the value of the Bank's portfolio or financial result due to adverse changes in equity prices, in particular investment certificates of funds and shares.

Management purposes

The purpose of equity price risk management is to reduce the risk of losses as a result of changes in equity prices by conducting proper equity investment activities.

Identification and measurement

The Bank identifies internal and external sources of equity price risk.

The measurement of equity price risk at BGK covers, among other things: share and investment certificate positions, value at risk (VaR), and stress tests.

VaR is calculated for the assumed 99% confidence level and using a range of market data from 251 business days. The model is back-tested by comparing the sensitivity values against remeasurement and actual results.

Control

The Bank's equity investments are subject to certain limits. The Bank applies equity price risk management procedures.

Monitoring

Risk monitoring process primarily involves cyclical review of risk measure levels and analysis of the limit usage.

Reporting

Reports are submitted on a daily, monthly, quarterly, semi-annual and annual basis – each report is addressed to recipients at an appropriate level.

Quantitative information

The table below presents VaR at 99% confidence level in a horizon of 10 business days calculated for prices of listed shares.

VaR for equity price risk of the Bank	Date	As at	Average value*	Minimum value*	Maximum value*
VaR 10D 99%	31 Dec 2019	111,459	139,497	108,398	167,689
	31 Dec 2018	148,150	129,378	115,720	157,320

* Average, minimum and maximum value in the reporting period ending at the date specified.

48. OPERATIONAL RISK MANAGEMENT

Definition

The operational risk is defined as the risk of losses the Bank can incur as a result of misalignment or unreliability of internal processes, people, or systems or as a result of external events. This definition includes legal risk but excludes reputational risk understood as the risk of negative perception of the Bank's brand and strategic risk, defined as the risk related to disadvantageous or wrong strategic decisions, inadequate strategy implementation or a failure to carry out such strategy and changes in the external environment and inappropriate relation to such developments, although it applies to the relevant control processes.

Operational risk is inherent in all major areas of the Bank's operations, including any new, existing and modified products, processes and systems, and it takes into account of internal factors (such as the organisational structure, business profile, IT systems used, client profile, client complaints, HR quality, organisational changes and employee turnover) and external factors (external environment of the Bank).

Management purposes

The purpose of operational risk management is to increase security of business by improving efficient mechanisms adjusted to the profile and scale of operations for the identification, measurement, control, monitoring, mitigation and reporting of operating risk.

The Bank manages operational risk through:

- the function of Operational Risk Coordinator;
- a process-based approach to the assessment of business lines, products with significant risk and risk generated by Regional Units and organisational units of the Bank's head office,
- operational risk ratios.

Operational risk management covers all Regions and organisational units of the head office of the Bank and subsidiaries supervised by appropriate organisational units of the Bank's head office in line with the Head Office Organisational Regulations and their responsibilities.

Operational risk coordinators draw up reports with the assessment of processes, internal risk and KRIs for individual subsidiaries.

Risk identification and measurement

Operational risk is identified by collecting information on operational risk data sources, which can be either: internal (including operational events, incidents reported, customer complaints, surveys); or external (operational risk events databases of the Polish Banks Association and external analysis).

Potential risk is determined based on self-assessed of: internal risk generated by organisational units of the head office/ Bank Regional Units and subsidiaries, processes in active business lines of the Bank and products with significant operational risk.

Actual risks are assessed using operational risk ratios and limits and through the analysis of operational events, including estimations of the probability of loss entailing the need to recognise provisions for future losses.

The purpose of operational risk measurement is to evaluate threats resulting from operational risks using pre-determined risk measurements. Operational risk assessment includes: calculation of KRIs, calculation of the capital requirement using BIA, stress tests, and determination of the internal capital.

Risk control

The Bank regularly monitors the level of operational risk and efficiency as well as timeliness of activities aimed at reducing or transferring operational risk. Operational risk control involves setting operational risk limits adjusted to the Bank's scale and its operations, mainly in terms of the accepted level of operational risk, loss limits, operational risk indicators (KRI) and threshold values.

To reduce the impact of operational events, the Bank applies risk mitigants and implements various kinds of preventive actions, such as:

- training for employees,
- BCP emergency plans,
- risk transfer, including outsourcing and insurance coverage,
- other safeguards (legal, organisational and technical).

Risk monitoring

The Bank regularly monitors:

- operational events and their effects,
- use of the accepted level of operational risk and loss limits,
- indicators of operational risk (KRI) for warning and critical values,
- outcome of operational risk self-assessment,
- operational risk own funds requirement under the BIA,
- stress test results,
- efficiency and timeliness of activities aimed at reducing operational risk.

Risk reporting

Information on operational risk for the Bank and its subsidiaries is reported on a regular basis to executive management, the Bank's Operational Risk and Internal Control Committee, the Bank's Management Board, the Bank's Supervisory Board and the Risk Committee. The process includes information on the risk profile, identification of possible threats, and information on the measures adopted. The frequency of reports is as follows: ad hoc reports presenting material operational events, quarterly, semi-annual and annual reports to the same effect and annual reports presenting an operational risk map.

49. Other risks

49.1. Reputational risk management

Reputational risk is defined as the risk of negative perception of the Bank by its clients, counterparties, supervisors, regulators, opinion-makers, government institutions, public benefit organisations, associations, foundations and public opinion, which can adversely affect the performance of the Bank.

Reputational risk is managed to protect the Bank's brand image and reduce losses resulting from any damage to the Bank's reputation and the probability of occurrence of such a risk.

Reputational risk is managed through classification of reputational risk events with ex ante and ex post risk assessment carried out.

Reporting information on compliance risk is carried out on a regular basis as part of compliance risk reporting.

49.2. Business risk management

Business risk is defined as the risk of failure to achieve key business goals, in particular financial result, due to changes in economic, social, legal, business and market environment or failure to achieve the business and social goals implemented by the Bank as part of missions and tasks defined by the owner. Business risk involves strategic risk.

The objective of business risk management is to mitigate a negative financial impact of adverse changes in business environment, inappropriate decisions, inadequate implementation of decisions or inadequate response to changes in the business environment.

Business risk measurement

Business risk identification consists in identifying and determining actual and potential risks related to the existing and planned activities of the Bank which can considerably affect its financial condition, originate or change its revenue and expenses. Business risk is identified based on the analysis of selected revenue and cost items of the statement of profit or loss and significant interest-bearing balance sheet and off-balance-sheet items. Business risk as regards financial result is carried out by the Bank through a prospective assessment of business risk to the implementation of the Bank's Strategy and the schedule of works for the next year, as well as through the analysis of deviations from the Bank's Strategy and the schedule of works of the Bank, including trends in the implementation of main items and expected results in the periods to follow. Key parameters of the schedule of works and expenditures of the Bank which are assessed and analysed include key items of statement of financial position, profitability, portfolio quality, margin, and capital adequacy ratio.

The Bank, as part of periodical reporting process, carries out an in-depth analysis and clarifies any business risk factors resulting in failure to meet the Bank's annual net profit target of more than PLN 25 million. A report is prepared, which summarises a given financial year discusses key risks, risk mitigants and recommendations. These elements are also examined in the process of drawing up the schedule of works and expenditures for the year to follow.

Along with updating the Strategy, the Bank analyses Strategy performance and deviations from the financial projections. Performance of business and financial goals is assessed together with changes in the macroeconomic environment.

As part of risk management process, the Bank carries out stress tests based on the schedule of works and expenditures of the Bank and its Strategy to determine the impact of the assumptions made on the risk measures, in particular capital adequacy and liquidity ratios. Stress testing of risk measures is carried out in line with the applicable risk management principles.

Projecting and monitoring business risk

Business risk is monitored by way of a monthly analysis of the Bank's performance, a semi-annual profitability analysis of selected bank products presented at the BFC that includes a detailed list of product profitability factors, such as interest margin, net fee and commission income and liquidity margin as well as factors related to covering estimated cost of risk and operating expenses. The annual review is carried out for regulatory risk, market risk and business risk.

Apart from preparing annual and long-term plans in the process of the Bank's Strategy review, when the Management Board of the Bank is presented with key factors affecting the Bank's performance and financial condition and key risks for the schedule of works and expenditures, which are tantamount to its business risks, the Bank regularly reviews its performance and balance sheet projections. The projections are aimed at assessing the probability of meeting the objectives determined in the schedule and include action plans supporting achievement of such business and financial goals.

Business risk reporting

Business risk reports are prepared on a monthly, quarterly and annual basis. Monthly and quarterly reports cover key indicators of the Bank, statement of financial position, deposit, credit and performance data. The annual report is prepared for the Management Board, Risk Committee, Audit Committee, and Supervisory Board. The report presents performance details of the schedule of works and expenditures, Strategy of the Bank and also contains information on the factors of risk from the business environment, such as macroeconomic risk factors, changes in legal regulations for banking activity, as well as market trends and changes in the banking sector, along with the domain of offered services and banking technologies.

49.3. COMPLIANCE RISK MANAGEMENT

Compliance risk includes the risk of negative effects resulting from non-compliance with the provisions of applicable law, internal regulations or market standards in the Bank's processes.

Compliance risk management includes risk identification, measurement, assessment, monitoring, and reporting and is carried out in line with written policies and procedures determining the code of conduct of the Bank.

The Bank's unit responsible for coordination of the compliance risk management process is the compliance unit which develops and implements compliance risk management principles and methods for investigation procedures and compliance tests. To reduce the compliance risk, a compliance risk coordinator was appointed in the Bank's organisational units that supports the compliance unit.

Reporting information on compliance risk is carried out on a regular basis.

49.4. REPORTING CHANGES IN MACROECONOMIC CONDITIONS

Macroeconomic risk is defined as the risk of changes in macroeconomic environment, which may adversely affect the Bank and minimum capital requirements in the future.

The objective of macroeconomic risk management is to identify macroeconomic factors that significantly affect the operations of the Bank and to reduce the adverse impact of such macroeconomic changes on the financial condition of the Bank.

Macroeconomic risk management process involves identifying those macroeconomic factors that significantly affect the operations of the Bank and determining potential scenarios for individual factors.

When designing the Bank's Strategy, the Schedule of works and expenditures, the Credit Policy, and other documents important for the activities of the Bank, the Bank takes into account its macroeconomic environment and potential changes therein.

Macroeconomic risk is measured based on stress tests of macroeconomic factors (interest rates, exchange rates, changes in real estate prices, changes of prices of selected assets on goods markets, e.g. changes in energy commodity prices), and aggregate stress tests of capital adequacy analysing the impact of given assumptions, including macroeconomic factors, on capital requirements and internal capital. Macroeconomic risk is also measured based on the Bank's exposure in individual industries, clients or products. Internal limits are determined in line with the expected sector risk.

Macroeconomic risk is reported in monthly, quarterly and annual credit risk reports which present the impact of macroeconomic environment on the Bank's lending activity and in individual stress test reports. The reports are drawn up for the Bank Credit Committee, the Bank Financial Committee, the Management Board, the Risk Committee, and the Supervisory Board.

49.5. MODEL RISK MANAGEMENT

Definition

Model risk means the potential loss the Bank may incur as a consequence of decisions that could be significantly based on the output of internal models used by the Bank, due to errors in the development, implementation or use of such models.

Management purposes

The risk of incurring losses as a result of wrong business decisions made based on the existing models is mitigated by operating a properly defined and implemented process for model management. One of the elements of the model management process is regular and independent validation of all material models.

Risk identification, measurement and assessment

Identification of model risk involves in particular collection of information on the models used or planned to be implemented and cyclical determination of materiality of individual models. Model risk assessment consists in an assessment of the risk for a single model and aggregate risk for all models and specification of the acceptable risk level.

Risk control

The purpose of model risk control is to obtain an aggregate assessment of the model risk at a level acceptable by the Bank. Model risk control consists in specification of mechanisms used for diagnosing the level of model risk as well as tools for reducing that risk.

Risk monitoring

All significant models subject to the process of independent periodical validation in line with the annual schedule of works approved by the Bank and prepared by an independent validation unit. An independent validation unit (independent in relation to the organisational units of the Bank that act as model owners or users) answers directly to the Member of the Management Board supervising the risk division. The results of model validation and recommendations are presented by an independent validation unit to the Model Management Committee.

Risk reporting

A quarterly model report (submitted to the Bank's Model Management Committee – MMC) and semi-annual model report (submitted to the Bank's Model Management Committee and the Management Board) contains in particular information on: models register, models logbooks, changes in the number of models in use, the scope of their application and reasons for such changes, schedule of tasks for a given period with the evaluation of its implementation, reasons for delay (if any), and key findings of monitoring activities, model validation, and internal audits (if any), along with model risk level assessment.

As for the annual report presented to the Supervisory Board of the Bank, the Risk Committee, the Management Board of the Bank, and the Model Management Committee, contains information analogical to the quarterly and mid-year reports and in addition information on the system of model risk management with the list of scheduled activities associated with the management of models and their risks and efficiency assessment.

50. CAPITAL ADEQUACY

Capital adequacy is monitored with the use of capital adequacy ratios:

- capital ratios determined in accordance with CRR provisions[1]:
  - Common Equity Tier 1 ratio,
  - Tier 1 ratio,
  - Total capital ratio.
- internal capital ratio referred to in Article 128.1.2 of the Banking Law Act.

The above indicators are specified on an individual basis as the CRR does not require prudential consolidation.

In 2019, the Bank met the capital adequacy standards specified in the CRR and the Banking Law Act.

Capital adequacy management includes:

- setting and monitoring capital adequacy ratios,
- setting and monitoring the use of capital limits for individual activity areas, based on the internal capital,

[1] Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (OJ L 176, 27.6.2013, p. 1, as amended)

(in PLN thousand)

- aggregate stress testing,
- reporting capital adequacy levels,
- capital planning,
- developing a capital contingency plan.

As part of capital adequacy management process, the Bank prepares regular reports on capital adequacy ratios, total capital requirement, internal capital and own funds, utilisation of capital limits, and stress tests results.

The Bank manages excessive leverage risk. Excessive leverage risk management is integrated with capital adequacy management and includes, inter alia, determining leverage ratio in line with Commission Delegated Regulation No. 2015/62 (EU) of 10 October 2014 to supplement Regulation (EU) No. 575/2013 of the European Parliament and of the Council with regard to leverage ratio (OJ L 11, 17.1.2015, p. 37) as Tier 1 capital measure divided by total exposure measure.

Dynamics of capital adequacy ratios and their components are presented in the tables below.

Capital adequacy ratios including flow funds

No.	Ratio	31 Dec 2019	31 Dec 2018
I	CET1	27.54%	31.50%
II	Tier 1 ratio	27.54%	31.50%
III	Capital adequacy ratio (total capital ratio)	27.54%	31.50%
IV	Internal capital ratio	37.22%	31.90%
V	Own funds	17,869,910	18,275,914
V.1	Tier1	17,869,910	18,275,914
V.1.1	CET1	17,869,910	18,275,914
V.1.2	AT1	0	0
V.2	Tier2	0	0
VI	Total capital requirement	5,190,120	4,642,211
VII	Internal capital	6,651,238	5,829,816
VIII	Leverage ratio	10.29%	11.71%

- Additional information

Capital adequacy ratios excluding flow funds

No.	Ratio	31 Dec 2019	31 Dec 2018
I	CET1	28.71%	32.09%
II	Tier 1 ratio	28.71%	32.09%
III	Capital adequacy ratio (total capital ratio)	28.71%	32.09%
IV	Internal capital ratio	36.04%	31.42%
V	Own funds	17,869,910	18,275,914
V.1	Tier1	17,869,910	18,275,914
V.1.1	CET1	17,869,910	18,275,914
V.1.2	AT1	0	0
V.2	Tier2	0	0
VI	Total capital requirement	4,979,544	4,555,615
VII	Internal capital	6,440,662	5,742,354
VIII	Leverage ratio	15.08%	18.10%

Changes in the capital ratios and the internal capital ratio mainly resulted from:

- a decrease in own funds as a result of a drop in the BGK's statutory fund due to allocation of PLN 500,000 thousand to the Polish Science Fund and an increase in the BGK's statutory fund and reserve fund attributable to accounting for the 2018 profit and retained earnings in a total amount of PLN 137,290 thousand,
- an increase in the total capital requirement caused mainly by an increase in capital requirement for credit risk in connection with, *inter alia*, a rise in risk weight from 4% to 10% for exposure to the State Treasury in currencies of EU Member States and an increase in exposure to enterprises.

50.1. OWN FUNDS FOR CAPITAL ADEQUACY PURPOSES

Own funds for capital adequacy ratio purposes are determined in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

For capital adequacy purposes, own funds are determined on a separate basis, as no prudential consolidation is required under the CRR.

(in PLN thousand)

BGK's own funds, determined in accordance with the CRR, include:

1) Tier 1:

- Tier 1 (CET1, Common Equity Tier 1 capital):
  – statutory fund that constitutes – pursuant to Article 3.3c of the Act on BGK – an equity instrument within the meaning of Articles 26(1)(a) and 28 of the CRR.

    The statutory capital is created from monies and other assets contributed by the State Treasury (including Treasury securities provided by the minister competent for public finance) as well as annual contributions from the Bank's net profit, in accordance with the principles specified in BGK's Articles of Association.

  – reserve capitals, including supplementary capital and reserve fund

    The supplementary capital and the reserve fund are established from the distribution of the annual net profit, in line with the principles defined in BGK's Articles of Association.

  – general banking risk reserve

    The general banking risk reserve is established from the distribution of the annual net profit, in line with the principles defined in BGK's Articles of Association.

  – accumulated other comprehensive income

  – deductions under intangible assets

    The amount deducted from Common Equity Tier 1 is decreased by the related deferred tax liabilities.

  – deductions of deferred tax assets depending on future profitability and not resulting from temporary differences

  – Additional Valuation Adjustments AVA is a simplified approach pursuant to Commission Delegated Regulation (EU) No. 2016/101 of 26 October 2015 supplementing Regulation (EU) No. 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for prudent valuation under Article 105 (14) (OJ L 21, 28.1.2016, p. 54).

  – Direct and indirect capital involvement of the Bank in financial sector entities, if the institution did not make a significant investment in those entities in the form of stock or shares held or of other instruments of the share capital or instruments of Tier 2 of those entities, as long as their aggregate amount exceeds 10% of Tier 1 share capital of the Bank.

  If the amount of decreases lowers Tier 2 capital below zero, the surplus of those decreases over the Tier 2 capital shall be deducted from Tier 1 basic funds.

- AT1, i.e. Additional Tier 1 Capital – as at 31 December 2019 and 31 December 2018, the Bank did not hold any positions in Additional Tier 1.

Own funds	31 Dec 2019*	31 Dec 2018
Basic funds (Tier 1)	**17,869,910**	**18,275,914**
Statutory capital	16,646,945	17,102,410
Supplementary capital	1,125,577	1,032,822
Other capital reserves	76,830	76,830
General banking risk reserve	155,500	155,500
Other comprehensive income	159,102	257,200
Intangible assets	-54,962	-49,048
Deferred tax liabilities related to intangible assets	3,575	2,723
Tier 1 adjustments resulting from prudential filters	-21,070	-17,287
Capital involvement decreasing own funds	-221,587	-285,236
Supplementary funds (Tier 2)	**0**	**0**
Total own funds	**17,869,910**	**18,275,914**

*excluding figures for Inland Waterways Fund.

(in PLN thousand)

50.2. CAPITAL REQUIREMENTS (PILLAR I)

In order to define minimum capital requirements under individual risk types (Pillar I), the Bank applies methods described in the table below.

Capital requirement under:	Method
credit risk and counterparty credit risk	– standardised approach (Articles 111 to 141 of the CRR) – financial collateral comprehensive method (Articles 223 to 224 of the CRR) – balance sheet equivalent of derivative transactions in line with the mark-to-market method (Article 274 of the CRR) – alternative calculation of own funds requirement for exposures to a QCCP (Article 310 of the CRR)
foreign exchange risk	basic approach (Article 351 of the CRR)
commodities risk	simplified approach (Article 360 of the CRR)
position risk related to:	
- specific risk of equity instruments in the trading book	pursuant to Article 342 of the CRR
- general risk of equity instruments in the trading book	pursuant to Article 343 of the CRR
- specific risk of debt instruments in the trading book	pursuant to Article 336 of the CRR
- general risk of debt instruments in the trading book	maturity ladder approach (Article 339 of the CRR)
settlement risk	pursuant to Articles 378 to 380 of the CRR
large exposures in the trading book	pursuant to Article 397 of the CRR
operational risk	basic indicator approach (Articles 315 to 316 of the CRR)
credit valuation adjustment (CVA) risk	standardised method (Article 384 of the CRR)

Capital requirements structure in BGK – including flow funds:

NO.	Capital requirement under:	31 Dec 2019	31 Dec 2018
I.	credit risk and counterparty credit risk	4,913,713	4,355,272
II.	foreign exchange risk	0	0
III.	commodities risk	0	0
IV.	risk of positions in the trading book, including:	91,671	106,144
1	- specific and general risk of equity instruments	0	0
2	- specific risk of debt instruments	0	0
3	- general risk of debt instruments	91,671	106,144
V.	credit valuation adjustment (CVA) risk	37,049	50,632
VI.	settlement risk	0	0
VII.	large exposures in the trading book	0	0
VIII.	operational risk	147,687	130,163
Total		**5,190,120**	**4,642,211**

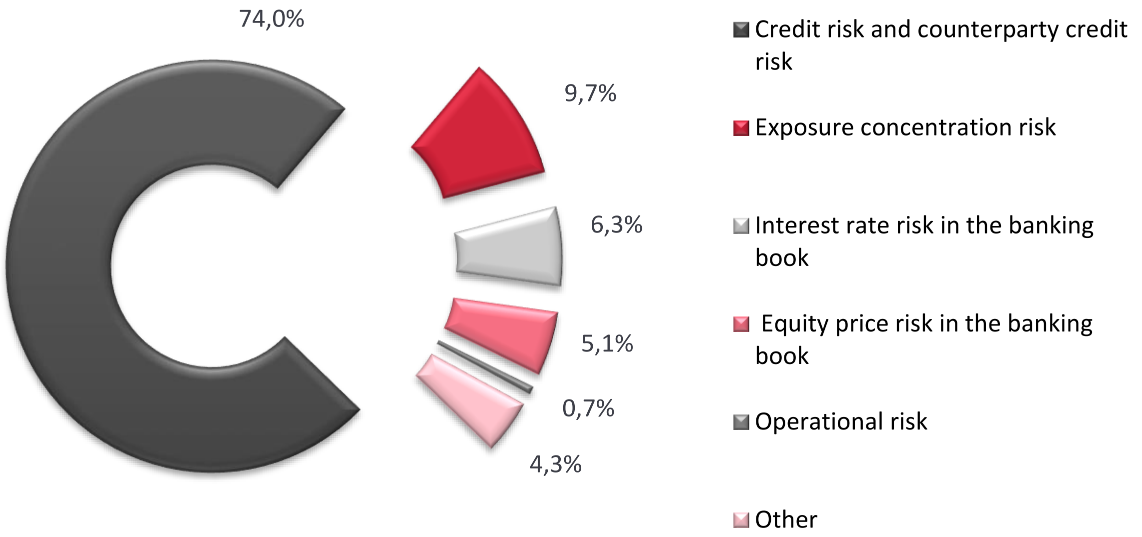
50.3. INTERNAL CAPITAL (PILLAR II)

Internal capital (Pillar II) is an amount estimated by the Bank which is necessary to cover all identified material risks occurring in the Bank's operations as well as changes in the economic environment, which takes account of the expected risk level. The amount of internal capital is estimated to cover unexpected loss.

The internal capital is estimated to cover risks identified as material. For immaterial risks, the Bank does not establish internal capital to cover them. The total amount of internal capital is determined as the total of internal capital allocated to individual risks.

In order to estimate the internal capital allocated to individual risks, the Bank applies the approaches used to determine capital requirements or internal methods developed by the Bank.

As at 31 December 2019, internal capital totalled PLN 6,651,238 thousand and the internal capital ratio – 37.22%. The percentage structure of internal capital (including flow funds) is presented below.



OTHER SUPPLEMENTARY INFORMATION

51. INFORMATION ON THE ENTITY AUTHORISED TO AUDIT THE FINANCIAL STATEMENTS

On 20 December 2018, the Bank entered into an agreement for the statutory audit of the financial statements with Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. (until 19 March 2018: Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k.) for a definite term of two years.

Fees paid or due for 2019:
- audit of the full-year financial statements – PLN 554 thousand gross,
- audit of the consolidated financial statements – PLN 295 thousand gross,
- other attestation services – PLN 53 thousand gross.

Fees paid or due for 2018:
- audit of the full-year financial statements – PLN 517 thousand gross,
- audit of the consolidated financial statements – PLN 271 thousand gross,
- other services: PLN 31 thousand gross.

52. PROPOSED PROFIT DISTRIBUTION

The Bank intends to distribute the net profit for 2019 in the following way:

Item	Proposed distribution of net profit for 2019
Profit distribution	511,185
Statutory capital	469,875
Supplementary capital	40,895
Increase in the Inland Waterways Fund	415

53. ASSETS PLEDGED AS COLLATERAL FOR THE PAYMENT OF LIABILITIES

The Bank's assets include loans granted from the funds of the former National Housing Fund, which have been pledged as collateral for the repayment of a loan obtained from the Ministry of Finance (funds from the Council of Europe Development Bank) and for the State Treasury guarantees for loans obtained from International Financial Institutions (the European Investment Bank and the Council of Europe Development Bank).

The value of receivables transferred by BGK to the State Treasury in relation to loans granted and guaranteed by the Ministry of Finance to increase the National Housing Fund is presented below.

Lender	Loan amount	Loan amount guaranteed by the State Treasury	State Treasury guarantee amount	Loan amount transferred as collateral for the loan or guarantee	
				31 Dec 2019	31 Dec 2018
Ministry of Finance using a loan granted by the Council of Europe Development Bank	PLN 630,000	-	-	0	0
European Investment Bank (EIB) - Financial Contract No. 21.426	EUR 10,000	EUR 10,000	EUR 16,800	8,583	14,305
European Investment Bank (EIB) - Financial Contract No. 21.607	EUR 200,000	EUR 200,000	EUR 296,000	457,111	522,547
Council of Europe Development Bank	PLN 700,000	PLN 700,000	PLN 1,260,000	371,760	455,760

*all data in the table above are indicated in PLN '000

The liabilities of the Bank have been secured with the following assets:

Type of transaction	Collateral	31 Dec 2019		31 Dec 2018	
		Carrying amount of assets held as security against liabilities	Amount of liabilities secured	Carrying amount of assets held as security against liabilities	Amount of liabilities secured
Repurchase and reverse repurchase transactions	bonds	9,102,418	9,113,388	5,203,332	5,214,051
Other loans	loans	677,005	520,223	777,876	614,526
Derivative transactions	deposits	11,169	88,695	385,548	416,502

Basis for securities blocking:

- for repo and sell-buy-back transactions – under standard procedures applicable to a given type of transactions in the money market,
- for other loans, derivative transactions – under agreements concluded with the Bank.

Guaranteed Deposit Protection Fund

In line with the Act of 10 June 2016 on Bank Guarantee Fund, the system of deposit guarantee and mandatory restructuring, the Bank was excluded from the Act (Journal of Laws of 2017, item 1937) and, as a result, it does not contribute to the Guaranteed Deposit Protection Fund as of 1 January 2017.

54. MAJOR EVENTS SUBSEQUENT TO THE REPORTING DATE

I. Major events related to the Bank's investment and financial activities:

- On 10 January 2020, 23 January 2020 and 4 May 2020, BGK received EUR 813 thousand, EUR 1,310 thousand and EUR 444 thousand, respectively, from PGFF;
- On 5 February 2020 and 4 May 2020, EUR 667 thousand and EUR 1,400 thousand was transferred to PGFF;
- On 14 February 2020, EUR 285 thousand was transferred to 2020 European Fund for Energy, Climate Change and Infrastructure (Marguerite I);
- On 27 February 2020, BGK executed a Subscription Agreement under which its commitment to the Three Seas Initiative Investment Fund amounts to EUR 500,000 thousand;
- On 28 February 2020 and 30 April 2020, an additional payment for FSMdR FIZ AN Series I investment certificates was made in the amount of PLN 75,891 thousand and PLN 35,516 thousand, respectively;
- In February 2020, in connection with the registration of a share capital increase of Polnord S.A. (by way of issue of Series T shares, in which BGK did not participate), BGK's interest in the company's share capital and voting rights at the General Meeting fell from 6.38% to 2.14%;
- On 3 March 2020 and 20 April 2020, BGK received, respectively, EUR 915 thousand and EUR 7,465 thousand from 2020 European Fund for Energy, Climate Change and Infrastructure (Marguerite I);
- On 12 March 2020, EUR 10,200 thousand was transferred to Marguerite II SCSp fund;
- On 12 March 2020, in connection with the registration of a share capital increase of Samorządowy Fundusz Poręczeń Kredytowych Sp. z o.o. of Gostyń (no shares were acquired by BGK), BGK's interest in the company's share capital and voting rights at the General Meeting fell from 41.01% to 38.74%;
- On 13 March 2020, a resolution was passed on approval of the sale of shares in Polnord S.A. On 8 April 2020, the Bank sold its shareholding in Polnord S.A. (2,086,890 shares) for a price of PLN 3.55 per share as part of the tender offer announced by the majority shareholder Cordia International Ingatlanfejlesztő Zártkörűen Működő Részvénytársaság of Budapest, for a total price of PLN 7,408 thousand;
- Since 1 May 2020 the Bank has stepped up its engagement in the project "Mieszkania dla Rozwoju" (Housing for Growth). The project is a part of the National Housing Programme, which is designed to reduce the housing deficit in the property market. Given its increased engagement, BGK took over a part of the transaction office from PFR Nieruchomości S.A., the previous project coordinator for local government units;
- On 6 May 2020, EUR 1,961 thousand was transferred to the Three Seas Initiative Investment Fund as an additional contribution.

II. Impact of COVID-19 on the Bank's operations

1) Impact of COVID-19 on the Bank's financial condition and operations

   The Regulation of the Minister of Health on the introduction of the state of epidemic threat in the Republic of Poland in connection with infections with the SARS-CoV-2 virus was published on 13 March 2020. The Bank monitors its financial condition, including the impact of external factors, on an ongoing basis. It is estimated that the risk relating to COVID-19 will affect the Bank's financial condition. The scale of the impact will depend, in particular, on the effect of COVID-19 risk on:

   - changes in the Bank's business environment, including administrative decisions, changes in regulatory and macroeconomic environment, condition of financial markets (including foreign exchange markets), changes in behaviour of the Bank's customers, on both the deposit and credit side;
   - costs of operations, including labour costs (availability and cost of employees), and costs of services (availability and prices of services provided to the Bank by third parties);
   - financial condition of entities associated with the Bank, in particular entities in which the Bank holds equity interests.

   The Bank reports that it fully maintains its business continuity and that none of its key processes and functions have been disrupted. It introduced measures to limit the epidemiological risk with respect to both employees and customers visiting the Bank's Regions. At present, a substantial part of the Bank's employees perform their duties remotely or with proper distancing within the available office space, enabling them to maintain safe working conditions.

Given the short period of existence of the COVID-19 risk, the Bank does not have sufficient data enabling it to estimate the future impact of COVID-19 on its key financial indicators. Nonetheless, the Bank constantly monitors the areas referred to above to optimise its business decisions based on the observed developments.

Most of all, it is still impossible to assess the impact of COVID-19 on key economic parameters, both in Poland and worldwide. The major issues are the further evolution of the epidemic, the effectiveness of fiscal and monetary stimulus packages, also in Poland, and the process of reopening economies from the imposed (at the date of release of these financial statements) administrative restrictions. At present, the consensus is that 2020 will see a global recession. This will involve a GDP contraction in real terms in Poland, protracted depreciation of the złoty against major currencies and low interest rates.

The Bank analyses the situation related to COVID-19 and takes appropriate measures on an ongoing basis. In the first months of the epidemic, before the virus spilled across Europe, the Bank carried out stress test for customers that relied on trade with China. The tests were performed in consultation with the customers and using the Bank's risk assessment tools. As the epidemic grew in strength, the stress tests covered the entire portfolio by industry with gradation of how the epidemic affects individual industries. The Bank takes account of the results of stress tests in financial planning.

Regardless of the impact on customers' standing and the Bank's performance, the epidemic of COVID-19 has a significant impact on the entire lending process. The Bank took a number of steps to facilitate the lending process during the epidemic, which involved the simplification of rules applied to changing the existing financing terms, including to suspending repayments of loans. Also, it introduced a simplified approval path for suspension of repayments and renewal of financing for customers affected by the epidemic, while retaining the acceptable level of risk.

Due to banks' role in the financial condition of customers and financing the economy, in particular businesses, the Polish Financial Supervision Authority prepared a package of measures to bolster the banking sector's resilience and its capacity to finance the economy in connection with the pandemic of the coronavirus disease. As part of the Supervisory Stimulus Package for Security and Development, the following measures are planned:

- in the areas of provisions and classification of credit exposures;
- in the area of capital buffers;
- in the area of liquidity requirements;
- in the area of day-to-day supervision;
- legislative measures.

On 17 March 2020, under decisions of the Monetary Policy Council:

- the NBP's reference rate was decreased by 0.50 percentage point, to 1.0%;
- it was agreed that the required reserve ratio applied to cash held from 30 April 2020 would be 0.5%.

In addition, on 8 April 2020 the Monetary Policy Council resolved to decrease the NBP's reference rate by a further 0.50 percentage point, to 0.5%. On the same day, the Monetary Policy Council also decided to offer banks a bill discount facility to refinance the liquidity financing provided by banks to businesses. At present, the cost of the bill discount facility is 0.6% per annum. BGK may also use this instrument, which may help reduce the cost of financing.

The Bank estimates that the above decisions of the Monetary Policy Council will have an adverse effect on its interest income in 2020 in the range of PLN 25-40 million per quarter.

As regards non-interest costs, such as commissions, fees and margins, as the Bank does not advance consumer loans, their potential reduction is not expected to have a significant effect on BGK's financial result.

On 26 March 2020, Bank Gospodarstwa Krajowego received a letter from the PFSA regarding dividend payment by banks. In its letter, the PFSA indicate that in view of the current situation related to the state of epidemic introduced in Poland and its potential further negative economic consequences, as well as its expected impact on the banking sector, the PFSA expects the banks – irrespective of the steps already taken – to retain the entire profit earned in previous years. In performance of the PFSA's recommendations, the Bank intends to allocate the entire net profit for 2019 to increase its equity.

The Bank monitors the current economic situation on an ongoing basis and makes decisions to ensure security of all its stakeholders. The Bank takes active steps to adjust its functioning to the changing environment in the best possible way. However, it must be pointed out that it is impossible to make an accurate estimate of the impact of the current situation resulting from the COVID-19 pandemic and that its scale largely depends on external factors beyond the control of the Bank.

As at the issue of these financial statements, it was impossible to quantify the effect of the pandemic and the stabilisation packages referred to above on the Bank's financial standing and operations. There is no indication of any threat to the BGK Group's continuing as a going concern on account of its liquidity and equity position.

2) Funds, programmes and products related to COVID-19 offered by the Bank

BGK has taken an active part, *inter alia*, in development of systemic solutions that will help entrepreneurs survive in this difficult period of the pandemic of COVID-19. Under relevant acts, the BGK established new flow funds and extended the scope of support provided through some others. New flow funds created at the Bank are:

- Liquidity Guarantee Fund – providing guarantees to medium and large companies hit by effects of the COVID-19 pandemic;
- COVID-19 Response Fund – mainly financing or co-financing tasks related to the fight with COVID-19. Till 11 May 2020, BGK had issued 7-year bonds with a total value of approximately PLN 21 billion with the proceeds transferred to the COVID-19 Response Fund. All bonds issued for the benefit of the COVID-19 Response Fund are fully secured with a State Treasury guarantee.

Moreover, in 2020 the scope of operations of the National Guarantee Fund established in 2018 was extended. In accordance with the new rules its funds are to be used to cover costs and expenses related to providing sureties and guarantees, including payments under the provided sureties and guarantees, which are state aid, *de minimis* aid, including in the agricultural and fisheries sector, to micro, small and medium-sized enterprises.

Additionally, the legislative process of the act under which the Interest Subsidy Fund (flow fund) will be created at BGK is underway. Its funds will be used for subsidies to interest on loans.

The above new funds will be presented in the financial statements of the Bank in accordance with the same principles as for the flow funds described in Note 2.5.1 of these financial statements, i.e. their assets and liabilities and equity will not be presented in the Bank's statement of financial position, as they are not assets and liabilities and equity within the meaning of IFRS.

The Bank has relevant experience as an entity implementing financial instruments using EU and national funds. Apart from offering its existing instruments, such as *de minimis* guarantees, Biznesmax guarantees and loans from Regional Operational Programmes, the Bank has launched new financial instruments designed to cushion the effects of the COVID-19 pandemic. In particular, these include:

- Liquidity Support Loan Fund – SG OP, for SMEs;
- Liquidity loan for Social Economy Entities.

Funds under these financial instruments were transferred to financial intermediaries to be used on advancing loans.

More detailed information on BGK's aid package for entities hit by the effects of the COVID-19 pandemic is presented in the Report of the Management Board on the Activities of the Bank Gospodarstwa Krajowego Group in 2019.

The Polish Banks Association, BGK, commercial banks and associations of cooperative banks launched a number of initiatives, which combined with the above acts relate to the planned measures undertaken in the banking sector mainly involving offers of new liquidity products, deferral of payments of principal and interest or payments of principal by three to six months, extension by the same period of the final loan repayment deadline, and use of collaterals in the form of guarantees and sureties, made available to small, medium and large enterprises.

Regarding loans advanced directly by BGK, an option was introduced to apply for a suspension of loan repayment for three months, and for working capital facilities it is possible to renew the existing facility for a period of up to six months.

BGK is engaged in supporting businesses suffering the effects of the pandemic, all the time intensively working on changes in products and programmes that would help its customers and partners maintain liquidity or the level of investment. The Bank cooperates closely with the State authorities in the development of anti-crisis measures, and all legislative proposals are monitored and assessed by the Bank on an ongoing basis.

3) Recapitalisation of BGK

The Ministry of Finance issued zero-coupon bonds (OB0722) with a nominal value of PLN 5,000,000 thousand maturing on 25 July 2022. On 24 April 2020, the bonds were transferred free-of-charge to Bank Gospodarstwa Krajowego to increase its statutory capital. The increase of the statutory capital is aimed at supporting the implementation of government programmes under the so-called anti-crisis shield prepared by the Council of Ministers and continuing BGK's mission as a development bank supporting the economy. The recapitalisation will chiefly enable BGK to carry out activities focused on improving liquidity of businesses disrupted by the outbreak of the COVID-19 epidemic.

4) Recapitalisation of KUKE S.A.

In view of the situation related to the impact of COVID-19 on the economy, including commercial insurers, on 10 April 2020 the General Meeting of KUKE S.A. resolved to recapitalise KUKE S.A. On 22 April 2020, the Bank acquired 252,360 new shares in KUKE S.A. with a par value of PLN 100 per share, for PLN 50,000 thousand, in a private placement.

5) Drop of the value of equity investments

In March 2020, share prices on the Warsaw Stock Exchange plummeted, including PKO BP and PZU S.A. stock, in which the Bank has a minority holding. As those investments are classified as financial assets measured at fair value through other comprehensive income, the drop in the value of the shares will not affect the Bank's financial performance. The effect of the change will be reflected in the statement of comprehensive income. The value of holdings in PKO BP and PZU S.A. as at 30 April 2020 fell by PLN 305 million and PLN 15 million, respectively, relative to the end of 2019.

6) Impact of COVID-19 on FIZ AN

According to the information presented in financial statements for 2019 of closed-end private equity investment funds, whose investment certificates are held by the Bank, the Fund manager monitors the situation and devises ways of mitigating the impact of COVID-19 on the Funds. It is likely that the changes in global financial and capital markets may have a significant adverse effect on the price of the Fund's investment certificates in the future. The Polish government undertakes every effort to mitigate the risk related to COVID-19 by creating anti-crisis shields. As part of those instruments, portfolio companies/SPVs, in which the Funds invested, will have the right and the possibility to apply for financial aid from the State in the form of liquidity and investment financing and other forms of support.

The Fund manager made an attempt, where possible, to estimate the impact of COVID-19 on the value of such assets of the Funds, on which the impact of COVID-19 had already been noticeable, but due to the fact that the situation is changing rapidly, it is not possible to present accurate quantitative estimates of the potential impact of the current situation on the Funds.

The Fund manager believes that the potential impact of the epidemic on the value, time and uncertainty (risk) of occurrence of the projected cash flows, which may in the future contribute to the change in the value of assets making up the Fund's investments, will be reflected in the value of assets and liabilities of the Funds in financial statements for subsequent periods.

In view of the above, the Bank estimates that COVID-19 may have a significant impact on the future price of the Funds' investment certificates. The Bank will monitor on an ongoing basis whether there is any indication of a lasting decrease in the value of the Funds' assets.

7) Impact of COVID-19 on the quality of the credit portfolio

The exposures of customers included in the loan portfolio of the Bank are constantly monitored, but it is currently difficult to determine to what extent the COVID-19 outbreak will affect their financial standing. As at the issue of these financial statements, the Bank did not deem it necessary to make their reclassification. Nonetheless, it is difficult to estimate whether the situation related to the outbreak of COVID-19 will have such a negative impact that would affect the classification in next months of 2020. The Bank is aware of the negative effects of the current situation, but without the possibility to analyse the customers financial statements for the most recent period, which are not yet available, and without knowing how long the lockdown will last, the Bank is not able to accurately identify customers for which business disruptions will only be temporary, and for which they will be lasting. In this context, account should be taken of the statements made by the PFSA, EBA and ESMA aimed at promoting flexibility in classification of customers which were in a sound economic and financial situation at the end of 2019 and which suffered temporary liquidity shortages as a consequence of the COVID-19 pandemic. In response, the Bank accepts applications and requests for a "payment holiday"/extension of the deadline for repayment of loan instalments or increase the amount of the provided loans. As at 30 April 2020 such applications filed in connection with the COVID-19 pandemic represented exposure of PLN 4,256.1 million, which accounted for approximately 9.7% of the carrying amount of the Bank's loan portfolio (receivables subject to credit risk) from the end of April 2020 (PLN 44,043 million). About 67% of all applications concerned a payment holiday. Nearly 98% of applicants were customers from the enterprise segment. Applications were filed mostly for investment loans (approximately 66%).

These financial statements of Bank Gospodarstwa Krajowego for the financial year from 1 January to 31 December 2019 consist of 109 pages numbered consecutively.

Warsaw, 18 May 2020

Prepared by:
Managing Director at the Financial Department
/-/
Rafał Szadurski

Signatures of the Members of the Management Board of Bank Gospodarstwa Krajowego:

President
of the Management Board
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Beata Daszyńska-Muzyczka

First Vice-President
of the Management Board
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Paweł Nierada

Vice-President
of the Management Board
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Włodzimierz Kocon

Member
of the Management Board
/-/
Przemysław Cieszyński

Member
of the Management Board
/-/
Radosław Kwiecień

BANK GOSPODARSTWA KRAJOWEGO

STATEMENTS OF FUNDS

ESTABLISHED UNDER SEPARATE LEGISLATION

FOR THE FINANCIAL YEAR FROM

1 JANUARY TO 31 DECEMBER 2019

Table of contents

(in PLN thousand)

1. Inland Waterways Fund

1.1. Statement of financial position of the Inland Waterways Fund

	31 Dec 2019	31 Dec 2018
Assets		
Cash and balances with the Central Bank	0	0
Amounts due from banks	0	0
Financial assets held for trading	0	0
Financial assets at fair value through profit or loss	0	0
Financial assets at fair value through other comprehensive income	46,242	44,505
Loans and advances to customers	5,198	5,127
- measured at amortised cost	5,198	5,127
Debt instruments at amortised cost	0	0
Reverse repurchase agreements	0	0
Available-for-sale financial assets	0	0
Held-to-maturity financial assets	0	0
Investments in subsidiaries	0	0
Investments in associates	0	0
Financial assets held for sale	0	0
Intangible assets	0	0
Property, plant and equipment	0	0
Right-of-use assets	0	0
Investment property	0	0
Current tax receivables	0	0
Deferred tax assets	0	0
Other assets	91	31
Total assets	**51,531**	**49,663**
Liabilities and equity		
Liabilities		
Amounts due to the Central Bank	0	0
Amounts due to banks	0	0
Financial liabilities held for trading	0	0
Liabilities to customers	0	0
Liabilities due to repurchase agreements	0	0
Debt securities issued	0	0
Lease liabilities	0	x
Other liabilities	51,116	49,063
Current tax liabilities	0	0
Deferred tax liabilities	0	0
Provisions	0	18
Total liabilities	**51,116**	**49,081**
Statutory capital	0	0
Supplementary capital	0	0
Revaluation reserve	0	103
Other capital reserves	0	0
Retained earnings/accumulated loss	0	1
Net profit (loss) for the current year	415	478
Total equity	**415**	**582**
Total liabilities and equity	**51,531**	**49,663**

(in PLN thousand)

1.2. Off-balance-sheet items of the Inland Waterways Fund

	31 Dec 2019	31 Dec 2018
Contingent liabilities granted and received	**0**	**4,855**
Liabilities received	0	4,855
Liabilities related to purchase/disposal operations	**0**	**0**
Other	**0**	**0**
Total off-balance-sheet items	**0**	**4,855**

1.3. Statement of profit or loss of the Inland Waterways Fund

	2019	2018
Interest income	805	742
Net interest income	**805**	**742**
Fee and commission expense	-33	-7
Net fee and commission expense	**-33**	**-7**
Net gains (losses) on financial instruments at fair value through profit or loss and foreign exchange gains (losses)	0	0
Net gains (losses) on investments in financial assets	0	77
Net gains (losses) on modifications	0	0
Other operating income	0	0
Other operating expenses	-9	-2
General administrative expenses	-306	-320
Net impairment losses and provisions	53	-12
Operating result	**510**	**478**
Profit before tax	**510**	**478**
Income tax	0	0
Net profit	**510**	**478**

Warsaw, 18 May 2020

Prepared by:
Managing Director
at the Financial
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/-/

Rafał Szadurski

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Member
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Przemysław Cieszyński

Member
of the Management Board
/-/

Radosław Kwiecień

(in PLN thousand)

2. National Road Fund

2.1. Statement of financial position of the National Road Fund

	31 Dec 2019	31 Dec 2018
Assets		
Cash and balances with the Central Bank	0	0
Amounts due from banks	0	0
Financial assets held for trading	0	0
Financial assets at fair value through profit or loss	0	0
Financial assets at fair value through other comprehensive income	2,718,229	2,573,354
Loans and advances to customers	49,918,171	50,219,743
- measured at amortised cost	49,918,171	50,219,743
Debt instruments at amortised cost	0	0
Reverse repurchase agreements	0	0
Available-for-sale financial assets	0	0
Held-to-maturity financial assets	0	0
Investments in subsidiaries	0	0
Investments in associates	0	0
Financial assets held for sale	0	0
Intangible assets	0	0
Property, plant and equipment	0	0
Right-of-use assets	0	0
Investment property	0	0
Current tax receivables	0	0
Deferred tax assets	0	0
Other assets	96,926	102,965
Total assets	**52,733,326**	**52,896,062**
Liabilities and equity		
Liabilities		
Amounts due to the Central Bank	0	0
Amounts due to banks	31,765,613	32,481,232
Financial liabilities held for trading	0	0
Liabilities to customers	0	0
Liabilities due to repurchase agreements	0	0
Debt securities issued	18,539,888	18,643,228
Lease liabilities	0	x
Other liabilities	2,427,825	1,771,602
Current tax liabilities	0	0
Deferred tax liabilities	0	0
Provisions	0	0
Total liabilities	**52,733,326**	**52,896,062**
Statutory capital	0	0
Supplementary capital	0	0
Revaluation reserve	0	0
Other capital reserves	0	0
Retained earnings/accumulated loss	0	0
Net profit (loss) for the current year	0	0
Total equity	0	**0**
Total liabilities and equity	**52,733,326**	**52,896,062**

(in PLN thousand)

2.2. Off-balance-sheet items of the National Road Fund

	31 Dec 2019	31 Dec 2018
Contingent liabilities granted and received	**15,340,005**	**10,839,386**
Liabilities received	15,340,005	10,839,386
Liabilities related to purchase/disposal operations	**1,966,760**	**1,985,435**
Other	**0**	**0**
Total off-balance-sheet items	**17,306,765**	**12,824,821**

2.3. Statement of profit or loss of the National Road Fund

	2019	2018
Interest income	54,200	135,970
Interest expense	-1,573,877	-2,087,105
Net interest income	**-1,519,677**	**-1,951,135**
Fee and commission expense	-8,988	-8,683
Net fee and commission expense	**-8,988**	**-8,683**
Net gains (losses) on financial instruments at fair value through profit or loss and foreign exchange gains (losses)	-35,421	-311
Net gains (losses) on investments in financial assets	4,308	3,606
Net gains (losses) on modifications	0	0
Other operating income	0	0
Other operating expenses	0	0
General administrative expenses	-3	-3
Net impairment losses and provisions	0	0
Operating result	**-1,559,781**	**-1,956,526**
Profit/loss before tax	**-1,559,781**	**-1,956,526**
Income tax	0	0
Net profit/loss	**-1,559,781**	**-1,956,526**

Warsaw, 18 May 2020

Prepared by:
Managing Director at the Financial Department
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Rafał Szadurski

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State Treasury guarantees for repayment of liabilities under EIB loans taken for the NRF are secured by notarial statements for which the Bank submits itself for enforcement by the State Treasury represented by the Minister of Finance – up to the amount of NRF funds.

(in PLN thousand)

2.4. SOURCES OF FUNDING OF THE NATIONAL ROAD FUND

- Incurred foreign loans as at 31 December 2019

No.	An entity to grant a credit / loan	Parties to the Agreement	Date	Contractual amount/ Subject matter of the agreement	Interest rate	Terms and conditions of loan repayment		Principal balance as at 31 Dec 2019	Interest charged for 2019	Interest payable as at 31 Dec 2019
						Interest repayment	Principal repayment			
I.	European Investment Bank (EIB)	BGK – EIB	31 Aug 2005 15 Sep 2031	equivalent of EUR 380,000 thousand / NRF – AIF	variable in 3-month periods (determined by the EIB)	quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.03 and 15.09 to 15.09.2031	1,006,502	0	0
II.	European Investment Bank (EIB)	BGK – EIB	31 Aug 2005 15 Jun 2033	equivalent of EUR 175,000 thousand / NRF – A2 highway / waiver of EUR 56,000 thousand	variable in 3-month periods (determined by the EIB)	quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.03 and 15.09 from 15.03.2013 to 15.09.2030 semi-annually: 15.06 and 15.12, from 15.12.2015 to 15.06.2033	288,192	5,561	246
III.	European Investment Bank (EIB)	BGK – EIB	11 May 2006 15 Dec 2033	equivalent of EUR 200,000 thousand / NRF	variable in 3-month periods (determined by the EIB)	quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.03 and 15.09 from 15.03.2014 to 15.09.2031 semi-annually: 15.06 and 15.12, from 15.06.2016 to 15.12.2033	538,549	10,365	460
IV.	European Investment Bank (EIB)	BGK – EIB	25 Oct 2006	equivalent of EUR 300,000 thousand / NRF – Polish highway construction project	variable in 3-month periods (determined by the EIB)	quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.03 and 15.09 or 15.06 and 15.12, from 15.09.2017 to 15.12.2039	882,830	16,672	753
			15 Jun 2040		fixed	semi-annually 15.06 and 15.12	semi-annually: 15.06 and 15.12, from 15.12.2020 to 15.06.2040	318,989	10,441	485
V.	European Investment Bank (EIB)	BGK – EIB	30 Jul 2007 15 Mar 2029	equivalent of EUR 300,000 thousand / NRF	variable in 3-month periods (determined by the EIB)	quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.03 and 15.09 or 15.06 and 15.12, from 15.12.2013 to 15.03.2029	674,619	13,419	575
VI.	European Investment Bank (EIB)	BGK – EIB	17 Nov 2009	equivalent of EUR 565,000 thousand / NRF – Warsaw bypass, waiver of EUR 97,255 thousand	fixed, determined for each tranche separately	quarterly: 15.03, 15.06, 15.09, 15.12 quarterly: 15.02, 15.05, 15.08, 15.11	semi-annually: 15.06 and 15.12 from 15.12.2019 to 15.12.2039 semi-annually: 15.05 and 15.11, from 15.11.2020 to 15.05.2040	1,544,485	64,442	3,755
			15 May 2040		variable in 3-month periods (determined by the EIB)	quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.06 and 15.12 from 15.06.2020 to 15.12.2039	400,000	6,944	301
VII.	European Investment Bank (EIB)	BGK – EIB	4 Dec 2009	equivalent of EUR 325,000,000.00 thousand / NRF – for road rehabilitation project	fixed	quarterly: 15.02, 15.05, 15.08, 15.11	semi-annually: 15.05 and 15.11, from 15.11.2016 to 15.11.2030	872,258	30,662	3,706
			15 Jun 2033		fixed until 15 Jun 2023	quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.06 and 15.12 from 15.12.2019 to 15.06.2033	221,716	8,060	364
VIII.	European Investment Bank (EIB)	BGK – EIB	4 Dec 2009	equivalent or EUR 500,000 thousand / NRF – A2 highway Stryków-Konotopa Ten, waiver of EUR 75,000 thousand	fixed, determined for each tranche separately	quarterly: 15.02, 15.05, 15.08, 15.11 quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.02 and 15.08 or 15.05 and 15.11, from 15.11.2020 to 15.05.2042 semi-annually: 15.03 and 15.09 from 15.03.2022 to 15.03.2042	1,703,400	63,410	7,454
			15 May 2042		variable in 3-month periods (determined by the EIB)	quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.06 and 15.12 from 15.06.2020 to 15.12.2039	95,963	2,038	89
IX.	European Investment Bank (EIB)	BGK – EIB	16 Mar 2010 15 Feb 2042	EUR 200,000 thousand / NRF – Polish highway construction project – B, waiver of EUR 40,000 thousand	fixed, determined for each tranche separately	quarterly: 15.02, 15.05, 15.08, 15.11 quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.02 and 15.08 or 15.05 and 15.11, from 15.05.2021 to 15.02.2042 semi-annually: 15.06 and 15.12 from 15.06.2021 to 15.06.2041	681,360	26,209	2,683
X.	European Investment Bank (EIB)	BGK – EIB	9 Jul 2010	EUR 350,000 thousand / NRF – A1 highway (Toruń-Stryków)	fixed, determined for each tranche separately	quarterly: 15.02, 15.05, 15.08, 15.11	semi-annually: 15.02 and 15.08 or 15.05 and 15.11 from 15.02.2021 to 15.08.2042	1,234,965	46,941	5,995

(in PLN thousand)

			15 Jan 2043		fixed until 15 Jul 2023	quarterly: 15.01, 15.04, 15.07, 15.10	semi-annually: 15.01 and 15.07, from 15.07.2023 to 15.01.2043	255,588	10,998	2,331
XI.	European Investment Bank (EIB)	BGK – EIB	17 Aug 2010 15 Feb 2036	EUR 450,000 thousand / NRF, waiver of EUR 150,000 thousand	fixed, determined for each tranche separately	quarterly: 15.02, 15.05, 15.08, 15.11	semi-annually: 15.02 and 15.08, from 15.02.2019 to 15.02.2036	1,208,662	46,903	5,858
XII.	European Investment Bank (EIB)	BGK – EIB	26 Nov 2010	EUR 225,000 thousand / NRF – A1 highway (Stryków-Pyrzowice), waiver of EUR 67,704 thousand	fixed, determined for each tranche separately	quarterly: 15.02, 15.05, 15.08, 15.11	semi-annually: 15.05 and 15.11, from 15.11.2019 to 15.11.2041	317,022	10,909	1,929
						quarterly: 15.01, 15.04, 15.07, 15.10	semi-annually: 15.01 and 15.07, from 15.01.2022 to 15.07.2043			
			15 Oct 2043		fixed until 15 Oct 2025 and fixed until 15 Oct 2026	quarterly: 15.01, 15.04, 15.07, 15.10	quarterly: 15.01, 15.04, 15.07, 15.10, from 15.10.2023 to 15.10.2043	350,000	11,987	2,541
XIII.	European Investment Bank (EIB)	BGK – EIB	22 Jun 2011	EUR 800,000 thousand / NRF – highways II	fixed, determined for each tranche separately	quarterly: 15.02, 15.05, 15.08, 15.11	semi-annually: 15.02 and 15.08 or 15.05 and 15.11 from 15.08.2021 to 15.05.2043	3,406,800	110,365	14,063
			15 Mar 2044			quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.03 and 15.09 from 15.09.2022 to 15.03.2044			
						quarterly: 15.01, 15.04, 15.07, 15.10	semi-annually: 15.01 and 15.07, from 15.01.2024 to 15.07.2043			
XIV.	European Investment Bank (EIB)	BGK – EIB	27 Sep 2011 15 May 2039	EUR 180,000 thousand / NRF – reconstruction of roads damaged by flood, waiver of EUR 14,510 thousand	fixed until 15 May 2022 fixed until 15 Nov 2024	quarterly: 15.02, 15.05, 15.08, 15.11	semi-annually: 15.05 and 15.11, from 15.05.2019 to 15.05.2039	662,919	32,555	4,044
XV.	European Investment Bank (EIB)	BGK – EIB	27 Sep 2011 15 Feb 2022	EUR 120,000 thousand / NRF - electronic toll collection system, waiver of EUR 6,217 thousand	fixed until 15 Feb 2022	quarterly: 15.02, 15.05, 15.08, 15.11	semi-annually: 15.02 and 15.08, from 15.02.2015 to 15.02.2022	162,514	3,494	388
XVI.	European Investment Bank (EIB)	BGK – EIB	15 Dec 2011	EUR 600,000 thousand / NRF – Roads in TEN-T network in Eastern Poland, waiver of EUR 132,201 thousand	fixed	quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.06 and 15.12, from 15.12.2021 to 15.06.2041	745,238	22,405	1,047
					fixed until 15 Sep 2024		semi-annually: 15.03 and 15.09, from 15.09.2022 to 15.09.2042	1,230,673	38,389	3,011
			15 Apr 2043		fixed until 15 Jun 2027		quarterly: 15.03, 15.06, 15.09, 15.12, from 15.06.2025 to 15.09.2042			
					fixed until 15 Oct 2025	quarterly: 15.01, 15.04, 15.07, 15.10	semi-annually: 15.01 and 15.10, from 15.10.2023 to 15.04.2043			
XVII.	European Investment Bank (EIB)	BGK – EIB	11 Dec 2012	EUR 900,000 thousand / NRF – expressways S7 and S8, waiver of EUR 173,223 thousand	fixed	quarterly: 15.02, 15.05, 15.08, 15.11	semi-annually: 15.05 and 15.11, from 15.11.2024 to 15.05.2044	979,455	22,234	2,840
			15 Aug 2044		fixed until 15 Aug 2024, determined for each tranche separately		semi-annually: 15.02 and 15.08, from 15.08.2024 to 15.08.2044	2,080,000	66,075	8,439
XVIII.	European Investment Bank (EIB)	BGK – EIB	9 Oct 2012	EUR 300,000 thousand / NRF – Warsaw bypass, waiver of EUR 134,075 thousand	fixed	quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.06 and 15.12, from 15.12.2023 to 15.06.2042	574,898	12,032	562
			15 Jan 2044		fixed until 15 Oct 2023	quarterly: 15.01, 15.04, 15.07, 15.10	quarterly: 15.01.; 15.04.; 15.07.; 15.10 from 15.10.2027 to 15.01.2044	132,615	3,652	774
XIX.	European Investment Bank (EIB)	BGK – EIB	8 Nov 2013 15 Sep 2046	EUR 100,000 thousand (decreased by way of annex from EUR 250,000 thousand) / NRF – A1 highway, Toruń - Stryków section	fixed until 15 Jun 2025 fixed until 15 Sep 2026	quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.06 and 15.12, from 15.06.2025 to 15.06.2045 semi-annually: 15.03 and 15.09, from 15.12.2026 to 15.09.2046	419,694	12,646	591
XX.	European Investment Bank (EIB)	BGK – EIB	17 Dec 2013	PLN 788,000 thousand / NRF – expressway S7 (Gdańsk-Warszawa-Kraków), waiver of PLN 127,000 thousand	fixed until 15 Nov 2025; fixed until 15 Feb 2021; fixed until 15 Nov 2026	quarterly: 15.02, 15.05, 15.08, 15.11	semi-annually: 15.05 and 15.11; quarterly: 15.02; 15.05; 15.08; 15.11 from 15.11.2025 to 15.08.2046	2,372,000	69,280	7,841
			17 Apr 2049		fixed until 15 Jul 2023	quarterly: 15.01.; 15.04.; 15.07.; 15.10.	quarterly: 15.01.; 15.04.; 15.07.; 15.10 from 15.07.2028 to 15.10.2047			
					fixed until 15 Sep 2023; fixed until 15 Sep 2027	quarterly: 15.03, 15.06, 15.09, 15.12	quarterly: 15.03; 15.06.; 15.09.; 15.12 from 15.12.2027 to 15.12.2047			
XXI.		BGK – EIB	17 Dec 2013		fixed	quarterly: 15.01, 15.04, 15.07, 15.10	quarterly: 15.01, 15.04, 15.07, 15.10 from 15.01.2026 to 15.07.2045	229,959	3,767	798

(in PLN thousand)

	European Investment Bank (EIB)		15 Dec 2047	PLN 680,000 thousand / NRF – expressway S8 (Warszawa-Białystok), waiver of PLN 242,282 thousand	fixed until 15 Sep 2023	quarterly: 15.03; 15.06.; 15.09.; 15.12.	quarterly: 15.03; 15.06.; 15.09.; 15.12 from 15.03.2028 to 15.12.2047	210,000	5,770	270
XXII.	European Investment Bank (EIB)	BGK – EIB	16 Apr 2014 16 Aug 2050	EUR 454,000 thousand / NRF – expressway S3, waiver of EUR 100,000 thousand	fixed until 15 Dec 2020; fixed until 15 Sep 2026; fixed until 15 Jul 2025; fixed until 15 Oct 2023	quarterly: 15.03, 15.06, 15.09, 15.12 quarterly: 15.01.; 15.04.; 15.07.; 15.10.	quarterly: 15.03, 15.06, 15.09, 15.12 from 15.12.2025 to 15.09.2046 quarterly: 15.01.; 15.04.; 15.07.; 15.10 from 15.10.2028 to 15.07.2048	1,032,040	28,926	4,276
XXIII.	European Investment Bank (EIB)	BGK – EIB	16 Apr 2014 16 Aug 2050	PLN 2,384,000 thousand / NRF – S5 expressway (Bydgoszcz-Wrocław), waiver of PLN 1,000,000 thousand	fixed fixed until 15 Nov 2020; fixed until 15 Nov 2026; fixed until 15 Nov 2027 fixed until 15 Jul 2025	quarterly: 15.02, 15.05, 15.08, 15.11 quarterly: 15.01.; 15.04.; 15.07.; 15.10.	quarterly: 15.02, 15.05, 15.08, 15.11 from 15.11.2025 to 15.08.2045 quarterly: 15.02, 15.05, 15.08, 15.11, from 15.11.2025 to 15.08.2047 quarterly: 15.01.; 15.04.; 15.07.; 15.10 from 15.10.2028 to 15.07.2048	187,374 870,000	3,112 26,206	397 4,436
XXIV.	European Investment Bank (EIB)	BGK – EIB	15 Dec 2014 15 Dec 2049	EUR 300,000 thousand / NRF – A1 highway (Pyrzowice-Częstochowa)	fixed until 15 Jun 2026; fixed until 15 Jul 2023	quarterly: 15.03, 15.06, 15.09, 15.12; or 15.01.; 15.04.; 15.07.; 15.10.	quarterly: 15.03, 15.06, 15.09, 15.12 from 15.12.2026 to 15.09.2046; quarterly: 15.01; 15.04.; 15.07.; 15.10 from 15.10.2028 to 15.07.2048	322,980	8,892	1,405
XXV.	European Investment Bank (EIB)	BGK – EIB	24-27 Mar 2015 27 Jul 2051	EUR 550,000 thousand / NRF – modernisation of roads in Poland III	fixed until 15 Jun 2021; fixed until 15 Jul 2023; fixed until 15 Oct 2023	quarterly: 15.03, 15.06, 15.09, 15.12 or 15.01.; 15.04.; 15.07.; 15.10.	quarterly: 15.03, 15.06, 15.09, 15.12 from 15.06.2026 to 15.03.2046; quarterly: 15.01; 15.04.; 15.07.; 15.10 from 15.07.2028 to 15.07.2048	1,090,000	28,679	4,968
XXVI.	European Investment Bank (EIB)	BGK – EIB	15 Oct 2014 15 Oct 2049	EUR 170,000 thousand / NRF – expressway S8 Warsaw access sections	fixed until 15 Sep 2026; fixed until 15 Sep 2023	quarterly: 15.03, 15.06, 15.09, 15.12	quarterly: 15.03, 15.06, 15.09, 15.12 from 15.12.2025 to 15.06.2048	408,500	11,286	527
XXVII.	European Investment Bank (EIB)	BGK – EIB	15 Oct 2014 15 Feb 2051	EUR 320,000 thousand / NRF – S17 expressway (Warszawa-Lublin)-A	fixed until 15 Jul 2023	quarterly: 15.01.; 15.04.; 15.07.; 15.10.	quarterly: 15.01.; 15.04.; 15.07.; 15.10 from 15.10.2028 to 15.07.2048	435,000	12,123	2,570
XXVIII.	European Investment Bank (EIB)	BGK – EIB	17 Jul 2015 17 Nov 2051	EUR 250,000 thousand / NRF – Warsaw bypass III-A	fixed until 15 Jul 2023	quarterly: 15.01.; 15.04.; 15.07.; 15.10.	quarterly: 15.01.; 15.04.; 15.07.; 15.10 from 15.10.2028 to 15.07.2048	135,000	3,811	808
XXIX.	European Investment Bank (EIB)	BGK – EIB	17 Jul 2015 17 Nov 2051	EUR 550,000 thousand / NRF – expressway S5 II (Nowe Marzy-Bydgoszcz-Wrocław)	fixed until 15 Oct 2023	quarterly: 15.01.; 15.04.; 15.07.; 15.10.	quarterly: 15.01.; 15.04.; 15.07.; 15.10 from 15.10.2028 to 15.07.2048	290,000	8,065	1,709
XXX.	European Investment Bank (EIB)	BGK – EIB	17 Nov 2016 28 Mar 2053	EUR 270,000 thousand / NRF – S7 expressway (Gdańsk-Elbląg)	fixed until 15 Oct 2024	quarterly: 15.01.; 15.04.; 15.07.; 15.10.	quarterly: 15.01.; 15.04.; 15.07.; 15.10 from 15.10.2028 to 15.07.2048	690,000	20,812	4,411
XXXI.	European Investment Bank (EIB)	BGK – EIB	24 Jan 2017 15 Jan 2053	EUR 200,000 thousand / NRF – S7 Expressway South (Lublin-Rabka)						
XXXII.	European Investment Bank (EIB)	BGK – EIB	17 Jul 2017 17 Nov 2053	EUR 325,000 thousand / NRF – S7 and S8 Expressways (Ten) II - Poland						
XXXIII.	European Investment Bank (EIB)	BGK – EIB	2 Jan 2018 15 Jan 2053	EUR 580,000 thousand / NRF – S19 Lublin-Rzeszów Expressway						
XXXIV.	European Investment Bank (EIB)	BGK – EIB	20 Apr 2018 15 Apr 2053	EUR 500,000 thousand / NRF – S61 Expressway Via Baltica						
XXXV.	Nordic Investment Bank	BGK – NIB	3 Dec 2012 15 Jan 2043	EUR 100,000 thousand / NRF – A1 highway, Stryków-Tuszyn section	variable in 6-month periods (determined by the NIB)	semi-annually 15.01 and 15.07	semi-annually: 15.01 and 15.07, from 15.01.2018 to 15.01.2043	392,450	1,530	704
Total								**31,655,209**	**942,067**	**110,404**

(in PLN thousand)

- Incurred foreign loans as at 31 December 2018

No.	An entity to grant a credit / loan	Parties to the Agreement	Date	Contractual amount/ Subject matter of the agreement	Interest rate	Terms and conditions of loan repayment		Principal balance as at 31 December 2018	Interest charged for 2018	Interest payable as at 31 December 2018
						Interest repayment	Principal repayment			
I.	European Investment Bank (EIB)	BGK – EIB	31 Aug 2005 15 Sep 2031	equivalent of EUR 380,000 thousand / NRF – AIF	variable in 3-month periods (determined by the EIB)	quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.03 and 15.09 to 15.09.2031	1,106,378	0	0
II.	European Investment Bank (EIB)	BGK – EIB	31 Aug 2005 15 Jun 2033	equivalent of EUR 175,000 thousand / NRF – A2 highway / waiver of EUR 56,000 thousand	variable in 3-month periods (determined by the EIB)	quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.03 and 15.09 from 15.03.2013 to 15.09.2030 semi-annually: 15.06 and 15.12, from 15.12.2015 to 15.06.2033	313,655	6,004	270
III.	European Investment Bank (EIB)	BGK – EIB	11 May 2006 15 Dec 2033	equivalent of EUR 200,000 thousand / NRF	variable in 3-month periods (determined by the EIB)	quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.03 and 15.09 from 15.03.2014 to 15.09.2031 semi-annually: 15.06 and 15.12, from 15.06.2016 to 15.12.2033	582,212	11,121	502
IV.	European Investment Bank (EIB)	BGK – EIB	25 Oct 2006	equivalent of EUR 300,000 thousand / NRF – Polish highway construction project	variable in 3-month periods (determined by the EIB)	quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.03 and 15.09 or 15.06 and 15.12, from 15.09.2017 to 15.12.2039	907,350	16,744	782
			15 Jun 2040		fixed	semi-annually 15.06 and 15.12	semi-annually: 15.06 and 15.12, from 15.12.2020 to 15.06.2040	322,097	10,545	493
V.	European Investment Bank (EIB)	BGK – EIB	30 Jul 2007 15 Mar 2029	equivalent of EUR 300,000 thousand / NRF	variable in 3-month periods (determined by the EIB)	quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.03 and 15.09 or 15.06 and 15.12, from 15.12.2013 to 15.03.2029	755,493	14,841	651
VI.	European Investment Bank (EIB)	BGK – EIB	17 Nov 2009	equivalent of EUR 565,000 thousand / NRF – Warsaw bypass, waiver of EUR 97,255 thousand	fixed, determined for each tranche separately	quarterly: 15.03, 15.06, 15.09, 15.12 quarterly: 15.02, 15.05, 15.08, 15.11	semi-annually: 15.06 and 15.12 from 15.12.2019 to 15.12.2039 semi-annually: 15.05 and 15.11, from 15.11.2020 to 15.05.2040	1,591,000	65,162	3,883
			15 May 2040		variable in 3-month periods (determined by the EIB)	quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.06 and 15.12 from 15.06.2020 to 15.12.2039	400,000	6,907	286
VII.	European Investment Bank (EIB)	BGK – EIB	4 Dec 2009	equivalent of EUR 325,000 thousand / NRF – for road rehabilitation project	fixed	quarterly: 15.02, 15.05, 15.08, 15.11	semi-annually: 15.05 and 15.11, from 15.11.2016 to 15.11.2030	960,828	33,624	4,083
			15 Jun 2033		fixed until 15 Jun 2023	quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.06 and 15.12 from 15.12.2019 to 15.06.2033	229,928	8,077	381
VIII.	European Investment Bank (EIB)	BGK – EIB	4 Dec 2009	equivalent of EUR 500,000 thousand / NRF – A2 highway Stryków-Konotopa Ten, waiver of EUR 75,000 thousand	fixed, determined for each tranche separately	quarterly: 15.02, 15.05, 15.08, 15.11 quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.02 and 15.08 or 15.05 and 15.11, from 15.11.2020 to 15.05.2042 semi-annually: 15.03 and 15.09 from 15.03.2022 to 15.03.2042	1,720,000	64,033	7,531
			15 May 2042		variable in 3-month periods (determined by the EIB)	quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.06 and 15.12 from 15.06.2020 to 15.12.2039	95,963	2,029	84
IX.	European Investment Bank (EIB)	BGK – EIB	16 Mar 2010 15 Feb 2042	EUR 200,000 thousand / NRF – Polish highway construction project – B, waiver of EUR 40,000 thousand	fixed, determined for each tranche separately	quarterly: 15.02, 15.05, 15.08, 15.11 quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.02 and 15.08 or 15.05 and 15.11, from 15.05.2021 to 15.02.2042 semi-annually: 15.06 and 15.12 from 15.06.2021 to 15.06.2041	688,000	26,469	2,713

(in PLN thousand)

X.	European Investment Bank (EIB)	BGK – EIB	9 Jul 2010	EUR 350,000 thousand / NRF – A1 highway (Toruń-Stryków)	fixed, determined for each tranche separately	quarterly: 15.02, 15.05, 15.08, 15.11	semi-annually: 15.02 and 15.08 or 15.05 and 15.11 from 15.02.2021 to 15.08.2042	1,247,000	47,398	6,054
			15 Jan 2043		fixed until 15 Jul 2023	quarterly: 15.01, 15.04, 15.07, 15.10	semi-annually: 15.01 and 15.07, from 15.07.2023 to 15.01.2043	255,588	10,998	2,331
XI.	European Investment Bank (EIB)	BGK – EIB	17 Aug 2010	EUR 450,000 thousand / NRF, waiver of EUR 150,000 thousand	fixed, determined for each tranche separately	quarterly: 15.02, 15.05, 15.08, 15.11	semi-annually: 15.02 and 15.08, from 15.02.2019 to 15.02.2036	1,290,000	48,960	6,253
			15 Feb 2036					0	0	0
XII.	European Investment Bank (EIB)	BGK – EIB	26 Nov 2010	EUR 225,000 thousand / NRF – A1 highway (Stryków-Pyrzowice), waiver of EUR 67,704 thousand	fixed, determined for each tranche separately	quarterly: 15.02, 15.05, 15.08, 15.11	semi-annually: 15.05 and 15.11, from 15.11.2019 to 15.11.2041	322,500	11,028	1,960
						quarterly: 15.01, 15.04, 15.07, 15.10	semi-annually: 15.01 and 15.07, from 15.01.2022 to 15.07.2043			
			15 Oct 2043		fixed until 15 Oct 2025 and fixed until 15 Oct 2026	quarterly: 15.01, 15.04, 15.07, 15.10	quarterly: 15.01, 15.04, 15.07, 15.10, from 15.10.2023 to 15.10.2043	350,000	11,987	2,541
XIII.	European Investment Bank (EIB)	BGK – EIB	22 Jun 2011	EUR 800,000 thousand / NRF – highways II	fixed, determined for each tranche separately	quarterly: 15.02, 15.05, 15.08, 15.11	semi-annually: 15.02 and 15.08 or 15.05 and 15.11 from 15.08.2021 to 15.05.2043	3,440,000	111,451	14,209
						quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.03 and 15.09 from 15.09.2022 to 15.03.2044			
			15 Mar 2044			quarterly: 15.01, 15.04, 15.07, 15.10	semi-annually: 15.01 and 15.07, from 15.01.2024 to 15.07.2043			
XIV.	European Investment Bank (EIB)	BGK – EIB	27 Sep 2011	EUR 180,000 thousand / NRF – reconstruction of roads damaged by flood, waiver of EUR 14,510 thousand	fixed until 15 May 2022	quarterly: 15.02, 15.05, 15.08, 15.11	semi-annually: 15.05 and 15.11, from 15.05.2019 to 15.05.2039	687,725	33,094	4,227
			15 May 2039		fixed until 15 Nov 2024					
XV.	European Investment Bank (EIB)	BGK – EIB	27 Sep 2011	EUR 120,000 thousand / NRF - electronic fee collection system, waiver of EUR 6,217 thousand	fixed until 15 May 2016	quarterly: 15.02, 15.05, 15.08, 15.11	semi-annually: 15.02 and 15.08, from 15.02.2015 to 15.02.2022	227,520	4,711	544
			15 Feb 2022		fixed until 15 Aug 2016					
XVI.	European Investment Bank (EIB)	BGK – EIB	15 Dec 2011	EUR 600,000 thousand / NRF – Roads in TEN-T network in Eastern Poland, waiver of EUR 132,201 thousand	fixed	quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.06 and 15.12, from 15.12.2021 to 15.06.2041	752,500	22,635	1,069
					fixed until 15 Sep 2024		semi-annually: 15.03 and 15.09, from 15.09.2022 to 15.09.2042	1,230,673	38,406	3,027
			15 Apr 2043		fixed until 15 Oct 2025	quarterly: 15.01, 15.04, 15.07, 15.10	semi-annually: 15.01 and 15.10, from 15.10.2023 to 15.04.2043			
XVII.	European Investment Bank (EIB)	BGK – EIB	11 Dec 2012	EUR 900,000 thousand / NRF – expressways S7 and S8, waiver of EUR 173,223 thousand	fixed	quarterly: 15.02, 15.05, 15.08, 15.11	semi-annually: 15.05 and 15.11, from 15.11.2024 to 15.05.2044	989,000	22,450	2,867
			15 Aug 2044		fixed until 15 Aug 2024, determined for each tranche separately		semi-annually: 15.02 and 15.08, from 15.08.2024 to 15.08.2044	2,080,000	66,075	8,439
XVIII.	European Investment Bank (EIB)	BGK – EIB	9 Oct 2012	EUR 300,000 thousand / NRF – Warsaw bypass, waiver of EUR 134,075 thousand	fixed	quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.06 and 15.12, from 15.12.2023 to 15.06.2042	580,500	12,156	574
			15 Jan 2044		fixed until 15 Oct 2023	quarterly: 15.01, 15.04, 15.07, 15.10	quarterly: 15.01.; 15.04.; 15.07.; 15.10 from 15.10.2027 to 15.01.2044	132,615	1,018	774
XIX.	European Investment Bank (EIB)	BGK – EIB	8 Nov 2013	EUR 100,000 thousand (decreased by way of annex from EUR 250,000 thousand) / NRF – A1 highway, Toruń - Stryków section	fixed until 15 Jun 2025	quarterly: 15.03, 15.06, 15.09, 15.12	semi-annually: 15.06 and 15.12, from 15.06.2025 to 15.06.2045	419,694	12,653	597
			15 Sep 2046		fixed until 15 Sep 2026		semi-annually: 15.03 and 15.09, from 15.12.2026 to 15.09.2046			
XX.	European Investment Bank (EIB)	BGK – EIB	17 Dec 2013	PLN 788,000 thousand / NRF – expressway S7 (Gdańsk-Warszawa-Kraków), waiver of PLN 127,000 thousand	fixed until 15 Nov 2025; fixed until 15 Feb 2021; fixed until 15 Nov 2026	quarterly: 15.02, 15.05, 15.08, 15.11	semi-annually: 15.05 and 15.11; quarterly: 15.02; 15.05; 15.08; 15.11 from 15.11.2025 to 15.08.2046	2,372,000	53,351	7,856
			17 Apr 2049		fixed until 15 Jul 2023	quarterly: 15.01.; 15.04.; 15.07.; 15.10.	quarterly: 15.01.; 15.04.; 15.07.; 15.10 from 15.07.2028 to 15.10.2047			

(in PLN thousand)

					fixed until 15 Sep 2023; fixed until 15 Sep 2027	quarterly: 15.03, 15.06, 15.09, 15.12	quarterly: 15.03; 15.06.; 15.09.; 15.12 from 15.12.2027 to 15.12.2047			
XXI.	European Investment Bank (EIB)	BGK – EIB	17 Dec 2013	PLN 680,000 thousand / NRF – expressway S8 (Warszawa-Białystok), waiver of PLN 242,282 thousand	fixed	quarterly: 15.01, 15.04, 15.07, 15.10	quarterly: 15.01, 15.04, 15.07, 15.10 from 15.01.2026 to 15.07.2045	232,200	3,803	806
			15 Dec 2047		fixed until 15 Sep 2023	quarterly: 15.03; 15.06.; 15.09.; 15.12.	quarterly: 15.03; 15.06.; 15.09.; 15.12 from 15.03.2028 to 15.12.2047	210,000	2,389	273
XXII.	European Investment Bank (EIB)	BGK – EIB	16 Apr 2014	EUR 454,000 thousand / NRF – expressway S3, waiver of EUR 100,000 thousand	fixed until 15 Dec 2020; fixed until 15 Sep 2026; fixed until 15 Jul 2025; fixed until 15 Oct 2023	quarterly: 15.03, 15.06, 15.09, 15.12	quarterly: 15.03, 15.06, 15.09, 15.12 from 15.12.2025 to 15.09.2046	1,032,040	17,383	4,450
			16 Aug 2050			quarterly: 15.01.; 15.04.; 15.07.; 15.10.	quarterly: 15.01.; 15.04.; 15.07.; 15.10 from 15.10.2028 to 15.07.2048			
XXIII.	European Investment Bank (EIB)	BGK – EIB	16 Apr 2014	PLN 2,384,000 thousand / NRF – expressway S5 (Bydgoszcz-Wrocław), waiver of PLN 1,000,000 thousand	fixed	quarterly: 15.02, 15.05, 15.08, 15.11	quarterly: 15.02, 15.05, 15.08, 15.11 from 15.11.2025 to 15.08.2045	189,200	3,143	401
			16 Aug 2050		fixed until 15 Nov 2020; fixed until 15 Nov 2026; fixed until 15 Nov 2027	quarterly: 15.02, 15.05, 15.08, 15.11	quarterly: 15.02, 15.05, 15.08, 15.11, from 15.11.2025 to 15.08.2047	870,000	18,715	4,436
					fixed until 15 Jul 2025	quarterly: 15.01.; 15.04.; 15.07.; 15.10.	quarterly: 15.01.; 15.04.; 15.07.; 15.10 from 15.10.2028 to 15.07.2048			
XXIV.	European Investment Bank (EIB)	BGK – EIB	15 Dec 2014 15 Dec 2049	EUR 300,000 thousand / NRF – A1 highway (Pyrzowice-Częstochowa)	fixed until 15 Jun 2026; fixed until 15 Jul 2023	quarterly: 15.03, 15.06, 15.09, 15.12; quarterly: 15.01; 15.04.; 15.07.; 15.10.	quarterly: 15.03, 15.06, 15.09, 15.12 from 15.12.2026 to 15.09.2046; quarterly: 15.01; 15.04.; 15.07.; 15.10 from 15.10.2028 to 15.07.2048	322,980	5,090	1,406
XXV.	European Investment Bank (EIB)	BGK – EIB	24-27 Mar 2015 27 Jul 2051	EUR 550,000 thousand / NRF – modernisation of roads in Poland III	fixed until 15 Jun 2021; fixed until 15 Jul 2023; fixed until 15 Oct 2023	quarterly: 15.03, 15.06, 15.09, 15.12; quarterly: 15.01; 15.04.; 15.07.; 15.10.	quarterly: 15.03, 15.06, 15.09, 15.12 from 15.06.2026 to 15.03.2046; quarterly: 15.01; 15.04.; 15.07.; 15.10 from 15.07.2028 to 15.07.2048	1,090,000	14,654	5,032
XXVI.	European Investment Bank (EIB)	BGK – EIB	15 Oct 2014 15 Oct 2049	EUR 170,000 thousand / NRF – expressway S8 Warsaw access sections	fixed until 15 Sep 2026; fixed until 15 Sep 2023	quarterly: 15.03, 15.06, 15.09, 15.12	quarterly: 15.03, 15.06, 15.09, 15.12 from 15.12.2025 to 15.06.2048	408,500	6,159	533
XXVII.	European Investment Bank (EIB)	BGK – EIB	15 Oct 2014 15 Feb 2051	EUR 320,000 thousand / NRF – expressway S17 (Warszawa-Lublin)-A	fixed until 15 Jul 2023	quarterly: 15.01.; 15.04.; 15.07.; 15.10.	quarterly: 15.01.; 15.04.; 15.07.; 15.10 from 15.10.2028 to 15.07.2048	435,000	4,085	2,570
XXVIII.	European Investment Bank (EIB)	BGK – EIB	17 Jul 2015 17 Nov 2051	EUR 250,000 thousand / NRF – Warsaw bypass III-A	fixed until 15 Jul 2023	quarterly: 15.01.; 15.04.; 15.07.; 15.10.	quarterly: 15.01.; 15.04.; 15.07.; 15.10 from 15.10.2028 to 15.07.2048	135,000	1,348	808
XXIX.	European Investment Bank (EIB)	BGK – EIB	17 Jul 2015 17 Nov 2051	EUR 550,000 thousand / NRF – expressway S5 II (Nowe Marzy-Bydgoszcz-Wrocław)	fixed until 15 Oct 2023	quarterly: 15.01.; 15.04.; 15.07.; 15.10.	quarterly: 15.01.; 15.04.; 15.07.; 15.10 from 15.10.2028 to 15.07.2048	290,000	2,404	1,709
XXX.	European Investment Bank (EIB)	BGK – EIB	17 Nov 2016 28 Mar 2053	EUR 270,000 thousand / NRF – S7 EXPRESSWAY (GDANSK ELBLAG)	fixed until 15 Oct 2024	quarterly: 15.01.; 15.04.; 15.07.; 15.10.	quarterly: 15.01.; 15.04.; 15.07.; 15.10 from 15.10.2028 to 15.07.2048	690,000	4,814	4,814
XXXI.	European Investment Bank (EIB)	BGK – EIB	24 Jan 2017 15 Jan 2053	EUR 200,000 thousand / NRF – S7 EXPRESSWAY SOUTH (LUBLIN-RABKA)						
XXXII.	European Investment Bank (EIB)	BGK – EIB	17 Jul 2017 17 Nov 2053	EUR 325,000 thousand / NRF – S7 AND S8 EXPRESSWAYS (TEN) II - POLAND						
XXXIII.		BGK – NIB	3 Dec 2012					413,137	1,610	737

(in PLN thousand)

	Nordic Investment Bank		15 Jan 2043	EUR 100,000 thousand / NRF – A1 highway, Toruń - Stryków section	variable in 6-month periods (determined by the NIB)	semi-annually 15.01 and 15.07	semi-annually: 15.01 and 15.07, from 15.01.2018 to 15.01.2043			
Total								**32,368,276**	**859,524**	**112,956**

(in PLN thousand)

- Issuance of bonds as at 31 December 2019

No.	Issue	Parties to the agreement	Date of conclusion/termination	Contractual amount/Subject matter of the agreement	Interest rate	Buy-out terms		Principal balance as at 31 December 2019	Interest charged for 2019	Interest payable as at 31 December 2019
						Interest	Principal			
I.	Own issues by BGK	BGK carries out issuance of bonds on its own	22 Jun 2011 25 Jun 2045	PLN 1,000 million / Issuance of bank bonds for the purpose of NRF	fixed 6.00%	per annum	Redemption on the maturity date with the right of early redemption	984,282	59,920	31,150
			24 Aug 2011 23 Nov 2011 27 Jun 2012 25 Oct 2022	PLN 5,250 million / Issuance of bank bonds for the purpose of NRF	fixed 5.75%			5,249,745	301,718	56,070
			22 May 2014 25 Oct 2024	PLN 1,270 million / Issuance of bank bonds for the purpose of NRF	fixed 4.00%			1,265,127	50,774	9,438
II.	Mid-term bonds in EUR Programme	Payment Agent – Citibank N.A., London Branch, Dealers – BNP Paribas, Citigroup Global Markets Limited, Deutsche Bank Aktiengesellschaft, HSBC Bank plc, J.P. Morgan Securities plc, Société Générale	6 May 2016 21 Oct 2016 6 May 2026	EUR 3,000 billion (as at 31 December 2019 the programme was valued at PLN 12.8 million)*/ Issuance of bonds for the purpose of NRF)	fixed 1.75%	per annum	Redemption on the maturity date	2,993,065	52,073	34,208
			3 Nov 2016 3 Nov 2036		fixed 2.00%			418,553	8,513	1,373
			31 Oct 2017 30 Apr 2028		fixed 1.625%			3,189,339	51,805	34,884
			1 Jun 2018 1 Jun 2025		fixed 1.375%			2,124,671	29,230	17,118
			1 Jun 2018 1 Jun 2030		fixed 2%			2,105,966	42,517	24,899
Total								**18,330,748**	**596,550**	**209,140**

* NBP's mid-market rate quoted for 31 December 2019 for EUR was 4.2585

(in PLN thousand)

- Issuance of bonds as at 31 December 2018

No.	Issue	Parties to the agreement	Date of conclusion/termination	Contractual amount/Subject matter of the agreement	Interest rate	Buy-out terms – Interest	Buy-out terms – Principal	Principal balance as at 31 December 2018	Interest charged for 2018	Interest payable as at 31 December 2018
I.	Own issues by BGK	BGK carries out issuance of bonds on its own	21 Oct 2009 18 Nov 2009 9 Dec 2009 19 May 2010 25 May 2011 27 Jul 2011 24 Oct 2018	PLN 11,652.5 million / Issuance of bank bonds for the purpose of NRF	fixed 6.25%	per annum	Redemption on the maturity date with the right of early redemption	0	590,549	0
			22 Jun 2011 25 Jun 2045	PLN 1,000 million / Issuance of bank bonds for the purpose of NRF	fixed 6.00%			983,666	60,000	31,230
			24 Aug 2011 23 Nov 2011 27 Jun 2012 25 Oct 2022	PLN 5,250 million / Issuance of bank bonds for the purpose of NRF	fixed 5.75%			5,249,655	301,875	56,227
			22 May 2014 25 Oct 2024	PLN 1,270 million / Issuance of bank bonds for the purpose of NRF	fixed 4.00%			1,264,116	50,800	9,464
II.	Mid-term bonds in EUR Programme	Payment Agent – Citibank N.A., London Branch, Dealers – BNP Paribas, Citigroup Global Markets Limited, Deutsche Bank Aktiengesellschaft, HSBC Bank plc, J.P. Morgan Securities plc, Societe Generale	6 May 2016 21 Oct 2016 6 May 2026	EUR 3,000 million (as at 31 December 2018, the programme was valued at PLN 12.9 million)* Issuance of bank bonds for the purpose of NRF	fixed 1.75%	per annum	Redemption on the maturity date	3,024,160	52,675	34,636
			3 Nov 2016 3 Nov 2036		fixed 2.00%			422,195	8,600	1,390
			31 Oct 2017 30 Apr 2028		fixed 1.625%			3,219,870	52,412	35,321
			1 Jun 2018 1 Jun 2025		fixed 1.375%			2,144,523	17,332	17,332
			1 Jun 2018 1 Jun 2030		fixed 2%			2,124,232	25,211	25,211
Total								**18,432,417**	**1,159,454**	**210,811**

* NBP's mid-market rate quoted for 31 December 2018 for EUR was 4.3
** interest charged on the date of redemption of bonds, i.e. as at 24 October 2018

(in PLN thousand)

3. Railway Fund

3.1. Statement of financial position of the Railway Fund

	31 Dec 2019	31 Dec 2018
Assets		
Cash and balances with the Central Bank	0	0
Amounts due from banks	0	0
Financial assets held for trading	0	0
Financial assets at fair value through profit or loss	0	0
Financial assets at fair value through other comprehensive income	762,603	466,683
Loans and advances to customers	0	0
Debt instruments at amortised cost	0	0
Reverse repurchase agreements	0	0
Available-for-sale financial assets	0	0
Held-to-maturity financial assets	0	0
Investments in subsidiaries	0	0
Investments in associates	0	0
Financial assets held for sale	0	0
Intangible assets	0	0
Property, plant and equipment	0	0
Right-of-use assets	0	x
Investment property	0	0
Current tax receivables	0	0
Deferred tax assets	0	0
Other assets	18,398	18,721
Total assets	**781,001**	**485,404**
Liabilities and equity		
Liabilities		
Amounts due to the Central Bank	0	0
Amounts due to banks	0	0
Financial liabilities held for trading	0	0
Liabilities to customers	0	0
Liabilities due to repurchase agreements	0	0
Debt securities issued	0	0
Lease liabilities	0	x
Other liabilities	781,001	485,404
Current tax liabilities	0	0
Deferred tax liabilities	0	0
Provisions	0	0
Total liabilities	**781,001**	**485,404**
Statutory capital	0	0
Supplementary capital	0	0
Revaluation reserve	0	0
Other capital reserves	0	0
Retained earnings/accumulated loss	0	0
Net profit (loss) for the current year	0	0
Total equity	**0**	**0**
Total liabilities and equity	**781,001**	**485,404**

(in PLN thousand)

3.2. OFF-BALANCE-SHEET ITEMS OF THE RAILWAY FUND

	31 Dec 2019	31 Dec 2018
Contingent liabilities granted and received	**0**	**0**
Liabilities related to purchase/disposal operations	**0**	**0**
Other	**0**	**0**
Total off-balance-sheet items	**0**	**0**

3.3. STATEMENT OF PROFIT OR LOSS OF THE RAILWAY FUND

	2019	2018
Interest income	18,722	14,272
Net interest income	**18,722**	**14,272**
Fee and commission expense	-1,009	-759
Net fee and commission expense	**-1,009**	**-759**
Net gains (losses) on financial instruments at fair value through profit or loss and foreign exchange gains (losses)	0	0
Net gains (losses) on investments in financial assets	1,073	833
Net gains (losses) on modifications	0	0
Other operating income	0	0
Other operating expenses	0	0
General administrative expenses	0	0
Net impairment losses and provisions	0	
Operating result	**18,786**	**14,346**
Profit/loss before tax	**18,786**	**14,346**
Income tax	0	0
Net profit/loss	**18,786**	**14,346**

Warsaw, 18 May 2020

Prepared by:
Managing Director
at the Financial
Department
/-/
Rafał Szadurski

Signatures of the Members of the Management Board of Bank Gospodarstwa Krajowego:

President
of the Management Board
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Beata Daszyńska-Muzyczka

First Vice-President
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Paweł Nierada

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Włodzimierz Kocon

Member
of the Management Board
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Przemysław Cieszyński

Member
of the Management Board
/-/
Radosław Kwiecień

(in PLN thousand)

4. Subsidy Fund

4.1. Statement of financial position of the Subsidy Fund

	31 Dec 2019	31 Dec 2018
Assets		
Cash and balances with the Central Bank	0	0
Amounts due from banks	0	0
Financial assets held for trading	0	0
Financial assets at fair value through profit or loss	0	0
Financial assets at fair value through other comprehensive income	446,439	605,832
Loans and advances to customers	0	0
Debt instruments at amortised cost	0	0
Reverse repurchase agreements	0	0
Available-for-sale financial assets	0	0
Held-to-maturity financial assets	0	0
Investments in subsidiaries	0	0
Investments in associates	0	0
Financial assets held for sale	0	0
Intangible assets	353	94
Property, plant and equipment	27	22
Right-of-use assets	0	x
Investment property	0	0
Current tax receivables	0	0
Deferred tax assets	0	0
Other assets	2,554	22,456
Total assets	**449,373**	**628,404**
Liabilities and equity		
Liabilities		
Amounts due to the Central Bank	0	0
Amounts due to banks	0	0
Financial liabilities held for trading	0	0
Liabilities to customers	0	0
Liabilities due to repurchase agreements	0	0
Debt securities issued	0	0
Lease liabilities	0	x
Other liabilities	448,927	627,928
Current tax liabilities	0	0
Deferred tax liabilities	0	0
Provisions	446	476
Total liabilities	**449,373**	**628,404**
Statutory capital	0	0
Supplementary capital	0	0
Revaluation reserve	0	0
Other capital reserves	0	0
Retained earnings/accumulated loss	0	0
Net profit (loss) for the current year	0	0
Total equity	**0**	**0**
Total liabilities and equity	**449,373**	**628,404**

(in PLN thousand)

4.2. OFF-BALANCE-SHEET ITEMS OF THE SUBSIDY FUND

	31 Dec 2019	31 Dec 2018
Contingent liabilities granted and received	**310,832**	**257,986**
Liabilities granted	310,832	257,986
Liabilities related to purchase/disposal operations	**0**	**0**
Other	**0**	**0**
Total off-balance-sheet items	**310,832**	**257,986**

4.3. STATEMENT OF PROFIT OR LOSS OF THE SUBSIDY FUND

	2019	2018
Interest income	7,736	8,103
Interest expense	-1	0
Net interest income	**7,735**	**8,103**
Fee and commission expense	-8	-12
Net fee and commission expense	**-8**	**-12**
Net gains (losses) on financial instruments at fair value through profit or loss and foreign exchange gains (losses)	0	0
Net gains (losses) on investments in financial assets	1,251	1,042
Net gains (losses) on modifications	0	0
Other operating income	127	2
Other operating expenses	0	75
General administrative expenses	-6,980	-6,041
Net impairment losses and provisions	0	0
Operating result	**2,125**	**3,169**
Profit/loss before tax	**2,125**	**3,169**
Income tax	0	0
Net profit/loss	**2,125**	**3,169**

Warsaw, 18 May 2020

Prepared by:
Managing Director
at the Financial
Department
/-/

Rafał Szadurski

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(in PLN thousand)

5. Student Loan Fund

As of 1 January 2019, the Student Loan and Credit Fund changed its name to the Student Loan Fund (hereinafter referred to as the Fund), which operates under the Act on Higher Education and Science of 20 July 2018 (Journal of Laws of 2018, item 1668, as amended) and the Regulation of the Minister of Science and Higher Education on student loans of 20 December 2018 (Journal of Laws of 2018, item 2468).

5.1. Statement of financial position of the Student Loan Fund

	31 Dec 2019	31 Dec 2018
Assets		
Cash and balances with the Central Bank	0	0
Amounts due from banks	0	0
Financial assets held for trading	0	0
Financial assets at fair value through profit or loss	0	0
Financial assets at fair value through other comprehensive income	0	0
Loans and advances to customers	0	0
Debt instruments at amortised cost	0	0
Reverse repurchase agreements	0	0
Available-for-sale financial assets	0	0
Held-to-maturity financial assets	0	0
Investments in subsidiaries	0	0
Investments in associates	0	0
Financial assets held for sale	0	0
Intangible assets	490	160
Property, plant and equipment	0	0
Right-of-use assets	0	x
Investment property	0	0
Current tax receivables	0	0
Deferred tax assets	0	0
Other assets	417	709
Total assets	**907**	**869**
Liabilities and equity		
Liabilities		
Amounts due to the Central Bank	0	0
Amounts due to banks	0	0
Financial liabilities held for trading	0	0
Liabilities to customers	0	0
Liabilities due to repurchase agreements	0	0
Debt securities issued	0	0
Lease liabilities	0	x
Other liabilities	849	822
Current tax liabilities	0	0
Deferred tax liabilities	0	0
Provisions	58	47
Total liabilities	**907**	**869**
Statutory capital	0	0
Supplementary capital	0	0
Revaluation reserve	0	0
Other capital reserves	0	0
Retained earnings/accumulated loss	0	0
Net profit (loss) for the current year	0	0
Total equity	**0**	**0**
Total liabilities and equity	**907**	**869**

(in PLN thousand)

5.2. Off-balance-sheet items of the Student Loan Fund

	31 Dec 2019	31 Dec 2018
Contingent liabilities granted and received	**0**	**0**
Liabilities related to purchase/disposal operations	**0**	**0**
Other	**0**	**0**
Total off-balance-sheet items	**0**	**0**

5.3. Statement of profit or loss of the Student Loan Fund

	2019	2018
Interest income	14	18
Net interest income	**14**	**18**
Fee and commission expense	-1	-1
Net fee and commission expense	**-1**	**-1**
Net gains (losses) on financial instruments at fair value through profit or loss and foreign exchange gains (losses)	0	0
Net gains (losses) on investments in financial assets	0	0
Net gains (losses) on modifications	0	0
Other operating income	0	0
Other operating expenses	-7	8
General administrative expenses	-731	-624
Net impairment losses and provisions	0	0
Operating result	**-725**	**-599**
Profit/loss before tax	**-725**	**-599**
Income tax	0	0
Net profit/loss	**-725**	**-599**

Warsaw, 18 May 2020

Prepared by:
Managing Director
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Rafał Szadurski

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(in PLN thousand)

6. Thermal Modernisation and Refurbishment Fund

6.1. Statement of financial position of the Thermal Modernisation and Refurbishment Fund

	31 Dec 2019	31 Dec 2018
Assets		
Cash and balances with the Central Bank	0	0
Amounts due from banks	0	0
Financial assets held for trading	0	0
Financial assets at fair value through profit or loss	0	0
Financial assets at fair value through other comprehensive income	581,740	570,689
Loans and advances to customers	0	0
Debt instruments at amortised cost	0	0
Reverse repurchase agreements	0	0
Available-for-sale financial assets	0	0
Held-to-maturity financial assets	0	0
Investments in subsidiaries	0	0
Investments in associates	0	0
Financial assets held for sale	0	0
Intangible assets	0	0
Property, plant and equipment	21	20
Right-of-use assets	0	x
Investment property	0	0
Current tax receivables	0	0
Deferred tax assets	0	0
Other assets	30	27
Total assets	**581,791**	**570,736**
Liabilities and equity		
Liabilities		
Amounts due to the Central Bank	0	0
Amounts due to banks	0	0
Financial liabilities held for trading	0	0
Liabilities to customers	0	0
Liabilities due to repurchase agreements	0	0
Debt securities issued	0	0
Lease liabilities	0	x
Other liabilities	581,534	570,417
Current tax liabilities	0	0
Deferred tax liabilities	0	0
Provisions	257	319
Total liabilities	**581,791**	**570,736**
Statutory capital	0	0
Supplementary capital	0	0
Revaluation reserve	0	0
Other capital reserves	0	0
Retained earnings/accumulated loss	0	0
Net profit (loss) for the current year	0	0
Total equity	**0**	**0**
Total liabilities and equity	**581,791**	**570,736**

(in PLN thousand)

6.2. Off-balance-sheet items of the Thermal Modernisation and Refurbishment Fund

	31 Dec 2019	31 Dec 2018
Contingent liabilities granted and received	**135,098**	**144,479**
Liabilities granted	135,098	144,479
financial	135,098	144,479
Liabilities related to purchase/disposal operations	**0**	**0**
Other	**0**	**0**
Total off-balance-sheet items	**135,098**	**144,479**

6.3. Statement of profit or loss of the Thermal Modernisation and Refurbishment Fund

	2019	2018
Interest income	8,135	6,165
Net interest income	**8,135**	**6,165**
Fee and commission expense	-10	-7
Net fee and commission expense	**-10**	**-7**
Net gains (losses) on financial instruments at fair value through profit or loss and foreign exchange gains (losses)	0	0
Net gains (losses) on investments in financial assets	889	575
Net gains (losses) on modifications	0	0
Other operating income	139	0
Other operating expenses	-583	-668
General administrative expenses	-4,342	-3,864
Net impairment losses and provisions	0	0
Operating result	**4,228**	**2,201**
Profit/loss before tax	**4,228**	**2,201**
Income tax	0	0
Net profit/loss	**4,228**	**2,201**

Warsaw, 18 May 2020

Prepared by:
Managing Director
at the Financial
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Rafał Szadurski

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Radosław Kwiecień

(in PLN thousand)

7. Borrower Support Fund

7.1. Statement of financial position of the Borrower Support Fund

	31 Dec 2019	31 Dec 2018
Assets		
Cash and balances with the Central Bank	0	0
Amounts due from banks	0	0
Financial assets held for trading	0	0
Financial assets at fair value through profit or loss	0	0
Financial assets at fair value through other comprehensive income	611,537	605,619
Loans and advances to customers	0	0
Debt instruments at amortised cost	0	0
Reverse repurchase agreements	0	0
Available-for-sale financial assets	0	0
Held-to-maturity financial assets	0	0
Investments in subsidiaries	0	0
Investments in associates	0	0
Financial assets held for sale	0	0
Intangible assets	0	0
Property, plant and equipment	0	0
Right-of-use assets	0	x
Investment property	0	0
Current tax receivables	0	0
Deferred tax assets	0	0
Other assets	142	138
Total assets	**611,679**	**605,757**
Liabilities and equity		
Liabilities		
Amounts due to the Central Bank	0	0
Amounts due to banks	0	0
Financial liabilities held for trading	0	0
Liabilities to customers	0	0
Liabilities due to repurchase agreements	0	0
Debt securities issued	0	0
Lease liabilities	0	x
Other liabilities	611,679	605,757
Current tax liabilities	0	0
Deferred tax liabilities	0	0
Provisions	0	0
Total liabilities	**611,679**	**605,757**
Statutory capital	0	0
Supplementary capital	0	0
Revaluation reserve	0	0
Other capital reserves	0	0
Retained earnings/accumulated loss	0	0
Net profit (loss) for the current year	0	0
Total equity	**0**	**0**
Total liabilities and equity	**611,679**	**605,757**

(in PLN thousand)

7.2. OFF-BALANCE-SHEET ITEMS OF THE BORROWER SUPPORT FUND

	31 Dec 2019	31 Dec 2018
Contingent liabilities granted and received	**0**	**0**
Liabilities related to purchase/disposal operations	**0**	**0**
Other	**0**	**0**
Total off-balance-sheet items	**0**	**0**

7.3. STATEMENT OF PROFIT OR LOSS OF THE BORROWER SUPPORT FUND

	2019	2018
Interest income	9,814	9,545
Net interest income	**9,814**	**9,545**
Fee and commission expense	-3,000	-3,000
Net fee and commission expense	**-3,000**	**-3,000**
Net gains (losses) on financial instruments at fair value through profit or loss and foreign exchange gains (losses)	0	0
Net gains (losses) on investments in financial assets	1,005	1,111
Net gains (losses) on modifications	0	0
Other operating income	0	0
Other operating expenses	0	0
General administrative expenses	0	0
Net impairment losses and provisions	0	0
Operating result	**7,819**	**7,656**
Profit/loss before tax	**7,819**	**7,656**
Income tax	0	0
Net profit/loss	**7,819**	**7,656**

Warsaw, 18 May 2020

Prepared by:
Managing Director
at the Financial
Department
/-/

Rafał Szadurski

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Paweł Nierada

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Włodzimierz Kocon

Member
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/-/
Przemysław Cieszyński

Member
of the Management Board
/-/
Radosław Kwiecień

(in PLN thousand)

8. National Guarantee Fund

8.1. Statement of financial position of the National Road Fund

	31 Dec 2019	31 Dec 2018
Assets		
Cash and balances with the Central Bank	0	0
Amounts due from banks	0	0
Financial assets held for trading	0	0
Financial assets at fair value through profit or loss	0	0
Financial assets at fair value through other comprehensive income	0	0
Loans and advances to customers	0	0
Debt instruments at amortised cost	0	0
Reverse repurchase agreements	0	0
Available-for-sale financial assets	0	0
Held-to-maturity financial assets	0	0
Investments in subsidiaries	0	0
Investments in associates	0	0
Financial assets held for sale	0	0
Intangible assets	14	0
Property, plant and equipment	56	0
Right-of-use assets	0	x
Investment property	0	0
Current tax receivables	0	0
Deferred tax assets	0	0
Other assets	1,091,562	926,643
Total assets	**1,091,632**	**926,643**
Liabilities and equity		
Liabilities		
Amounts due to the Central Bank	0	0
Amounts due to banks	0	0
Financial liabilities held for trading	0	0
Liabilities to customers	0	0
Liabilities due to repurchase agreements	0	0
Debt securities issued	0	0
Lease liabilities	0	x
Other liabilities	1,091,536	926,610
Current tax liabilities	0	0
Deferred tax liabilities	0	0
Provisions	96	33
Total liabilities	**1,091,632**	**926,643**
Statutory capital	0	0
Supplementary capital	0	0
Revaluation reserve	0	0
Other capital reserves	0	0
Retained earnings/accumulated loss	0	0
Net profit (loss) for the current year	0	0
Total equity	**0**	**0**
Total liabilities and equity	**1,091,632**	**926,643**

(in PLN thousand)

8.2. Off-balance-sheet items of the National Guarantee Fund

	31 Dec 2019	31 Dec 2018
Contingent liabilities granted and received	**0**	**0**
Liabilities related to purchase/disposal operations	**0**	**0**
Other	**0**	**0**
Total off-balance-sheet items	**0**	**0**

8.3. Statement of profit or loss of the National Guarantee Fund

	2019	2018
Interest income	12,745	10,211
Interest expense	-2	0
Net interest income	**12,743**	**10,211**
Fee and commission income	57,408	16,782
Net fee and commission income	**57,408**	**16,782**
Net gains (losses) on financial instruments at fair value through profit or loss and foreign exchange gains (losses)	0	0
Net gains (losses) on investments in financial assets	0	0
Net gains (losses) on modifications	0	0
Other operating income	2	0
Other operating expenses	-85	-33
General administrative expenses	-1,934	-560
Net impairment losses and provisions	0	0
Operating result	**68,134**	**26,400**
Profit/loss before tax	**68,134**	**26,400**
Income tax	0	0
Net profit/loss	**68,134**	**26,400**

Warsaw, 18 May 2020

Prepared by:
Managing Director
at the Financial
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Rafał Szadurski

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9. Polish Science Fund

9.1. Statement of financial position of the Polish Science Fund

	31 Dec 2019
Assets	
Cash and balances with the Central Bank	0
Amounts due from banks	0
Financial assets held for trading	0
Financial assets at fair value through profit or loss	0
Financial assets at fair value through other comprehensive income	0
Loans and advances to customers	0
Debt instruments at amortised cost	0
Reverse repurchase agreements	0
Available-for-sale financial assets	0
Held-to-maturity financial assets	0
Investments in subsidiaries	0
Investments in associates	0
Financial assets held for sale	0
Intangible assets	0
Property, plant and equipment	0
Right-of-use assets	0
Investment property	0
Current tax receivables	0
Deferred tax assets	0
Other assets	500,322
Total assets	**500,322**
Liabilities and equity	
Liabilities	
Amounts due to the Central Bank	0
Amounts due to banks	0
Financial liabilities held for trading	0
Liabilities to customers	0
Liabilities due to repurchase agreements	0
Debt securities issued	0
Lease liabilities	0
Other liabilities	500,322
Current tax liabilities	0
Deferred tax liabilities	0
Provisions	0
Total liabilities	**500,322**
Statutory capital	0
Supplementary capital	0
Revaluation reserve	0
Other capital reserves	0
Retained earnings/accumulated loss	0
Net profit (loss) for the current year	0
Total equity	**0**
Total liabilities and equity	**500,322**

(in PLN thousand)

9.2. Off-balance-sheet items of the Polish Science Fund

	31 Dec 2019
Contingent liabilities granted and received	**0**
Liabilities related to purchase/disposal operations	**0**
Other	**0**
Total off-balance-sheet items	**0**

9.3. Statement of profit or loss of the Polish Science Fund

	2019
Interest income	3,865
Net interest income	**3,865**
Fee and commission expense	-358
Net fee and commission expense	**-358**
Net gains (losses) on financial instruments at fair value through profit or loss and foreign exchange gains (losses)	0
Net gains (losses) on investments in financial assets	0
Net gains (losses) on modifications	0
Other operating income	0
Other operating expenses	0
General administrative expenses	0
Net impairment losses and provisions	0
Operating result	**3,507**
Profit/loss before tax	**3,507**
Income tax	0
Net profit/loss	**3,507**

Warsaw, 18 May 2020

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